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# “Enabling Global Sourcing in Supply Chain Challenging Times: Asian Supplier Perspective of Corporate Sustainability Due Diligences Directive CSDDD”

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## **Abstract**

The Corporate Sustainability Due Diligence Directive (CSDDD) presents both opportunities and challenges for global sourcing practices, particularly affecting the relationship between EU buyers and Asian suppliers. This study explores the antecedents that may help overcome the global sales barriers of CSDDD, using the dynamic capabilities theory to develop a guide. Through qualitative research and interviews, the study examines Asian companies' capability to sense, seize, and transform new opportunities and threats. Data were analysed using thematic analysis, revealing that while CSDDD aims to foster sustainable business practices, its successful implementation requires understanding and adaptation to region-specificities and technological advancements. Additionally, training and education, as well as the use of contractor firms, were identified as important tools to achieve the goals of CSDDD more effectively in Asian countries.

## **Index of abbreviations**

EU	European Union
CSDDD	Corporate Sustainability Due Diligence Directive
OECD	Organisation for Economic Corporate and Development
WTO	World Trade Organisation
GATT	General Agreement on Tariffs and Trade
ESG	Environmental, Social, Governance
CSR	Corporate Social Responsibility
SRI	Social Responsiveness Investment
IoT	Internet of Things
FDI	Foreign Direct Investment
DCT	Dynamic Capabilities Theory
RBV	Research-Based View
AI	Artificial Intelligence
ABCDE Framework	Antecedent, Barriers and Challenges, Drivers, and Effect
P	Participant

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# **1 The influence and dynamics in current Global Sourcing practices**

## **1.1 Situation description**

Over more than two decades, enterprises started to engage in international sourcing activities due to circumstance such as low cost product or limited resources.<sup>1</sup> This performance allows these enterprises to gain benefits such as cost reduction or access to resources that will lead to an increase in business competition.<sup>2</sup> The European Union (EU) is one of the largest trading blocks in the world and mainly imports from developing countries<sup>3</sup> as these countries can provide low-cost resources with forest-risk commodities at high levels of consumption. Businesses can find cheap resources compared to developed countries due to the low labour costs and low regulatory compliances. However, due to low regulatory compliance in developing countries, several social problems occurred. These social problems include environmental degradation due to unethical human activities such as emission, waste dumping, and human rights abuse for example forced/child labour and overworking. Therefore, the European Union established a new directive of Corporate Sustainability due diligence (CSDDD) in February of 2022, it aims to foster sustainable and responsible business behaviour to anchor human rights and environmental consideration as well as corporate governance. This regulation also aimed to ensure organisations address the adverse impacts of their action including in their supply chain within and outside Europe.<sup>4</sup>

Due to the establishment of the new supply chain law, the CSDD directive may lead European companies to relocate their supply chain back to their home country, Europe or other Organization for Economic Cooperation and Development (OECD) countries, which inevitably create a loss of sales for exporters in developing countries or non-EU countries<sup>5</sup> such assumption can be made. This assumption will in turn be business-related layoffs and in the worst scenario, the complete market exit for the impacted companies may occur. This favourable scenario does not directly relate to the termination of business relationships due to observed human rights

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<sup>1</sup> See Chung and Yeaple (2008, p. 1207)

<sup>2</sup> See M. Kotabe and J. Y. Murray (1990, p. 387)

<sup>3</sup> See Schilling-Vacaflor and Lenschow (2023)

<sup>4</sup> See European Commission (2022 )

<sup>5</sup> See Trapp (2022, p. 42)



violations. Instead, it can be driven by the high costs of monitoring or minimising desired risks. Moreover, suppliers from non-EU, especially developing countries, existing in the Western supply chain can lead to several economic in supplier countries such as an increase in the domestic economy starting to slow down or stop,<sup>6</sup> a negative effect on unemployment,<sup>7</sup> and income inequality in developing countries.<sup>8</sup>

However, upon researching this predicted situation, it has been determined that the anticipated reduction in trading activities between European buyers and non-European suppliers is not a cause for significant concern. Throughout the research, the current situation of international trade between EU buyers and non-EU suppliers does not have a dramatic reduction,<sup>9</sup> it does not improve back to pre-covid conditions but shifts to another way of trading. According to the economic evaluation report of Germany, it stated that the publication of the CSDDD multiple German organisations did not relocate their supply chain back to Germany or any other European countries but companies reacted by reducing the number of suppliers of one resource to a single supplier which can lead to monopolisation of an individual sector.<sup>10</sup> Therefore, CSDDD may lead to a change in the company's global sourcing practices and behaviour by reconsidering their global sourcing strategies.

## **1.2 Embedding the research in the academic and practical domain**

Global sourcing has been a fundamental aspect of international business strategy for a long time since the 1980s. Through the research of Kotabe and Murray (1990), the significance of global sourcing activity increased for firms combining domestic and international sourcing to achieve sustainable competitive advantages<sup>11</sup> such as cost reduction, access to materials, and improved supplier relationships.<sup>12</sup> This foundation understanding of global sourcing has evolved substantially over the past few decades due to various market influences and environmental

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<sup>6</sup> See Trapp (2022, p. 42)

<sup>7</sup> See Quy (2016, p. 2)

<sup>8</sup> See Meschi and Vivarelli (2009)

<sup>9</sup> See Sarah Creemers (2023 p. 6)

<sup>10</sup> See Trapp (2022, p. 43)

<sup>11</sup> See M. Kotabe and J. Y. Murray (1990, p. 384)

<sup>12</sup> See K. J. Petersen, Prayer, and Scannell (2000, p. 29); Vos, Scheffler, Schiele, and Horn (2016, p. 340)

changes. Recent literature published by Köerber and Schiele (2022), indicates how the COVID-19 pandemic has reshaped the global sourcing environment.<sup>13</sup> In particular, the pandemic exposed the vulnerabilities in long and complex supply chains, leading to many firms reconsidering their sourcing strategies. The trend towards back-shoring or near-shoring is creating firms' attention as they seek to mitigate risks associated with economic crises.<sup>14</sup> The increasing environmental regulations and awareness<sup>15</sup> such as the establishment of CSDDD are influencing global sourcing practices and behaviour of firms. These changes require suppliers to adopt greener practices such as green investment to align with the sustainability goals of their clients and the current market trend. Therefore, the capability of suppliers to adapt to these changes is crucial to maintain their competitive position in the global market. However, there is a gap of understanding between CSDDD influencing global practices leading to a research purpose.

To understand what enables suppliers to continue trading in the global market, it is essential to understand and evaluate their competencies and capabilities. The theoretical framework developed by Teece et al. (1997) can provide valuable insights towards this using the dynamic capabilities theory. The dynamic capabilities theory has a definition of the ability of firms to integrate, build, and reconfigure internal and external competencies when addressing the rapidly changing environment.<sup>16</sup> These capabilities include sensing, which refers to a firm's ability to identify new opportunities and threats in the current market. Seizing involves mobilising resources to capture the identified opportunities and threats, often through technology investment. Lastly, transformation is a firm's ability to continuously renew and reconfigure its resources and capabilities to adapt to the changing market. Together, these capabilities well-equipped firms to stay competitive and responsive in today's fast-changing and unexpected global market.

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<sup>13</sup> See Koerber and Schiele (2022, p. 219)

<sup>14</sup> See Kinkel (2012, p. 696)

<sup>15</sup> See Thorlakson, de Zegher, and Lambin (2018, p. 2072)

<sup>16</sup> See Teece, Pisano, and Shuen (1997, p. 516)

Furthermore, technological advancement is one of the key competencies and firm's capability to compete globally due to the widespread of the Internet. Advanced technologies such as artificial intelligence and data analytics are transforming manufacturing and supply chain processes achieving effectiveness and efficiency. For example, the establishment of Industry 4.0 enables suppliers to improve production efficiency, and supply chain visibility through data transparency and quality control. Suppliers who leverage technologies effectively can respond to fast-changing markets and maintain their competitive position.

### **1.3 Research objectives**

Due to the missing of connection between CSDDD and global sourcing, this study aims to identify the activities and capabilities suppliers have or need to perform to enable global sourcing practices. Focusing on the impacts of CSDDD on suppliers, particularly the Asian suppliers, and discovering collaborative strategies for buyers and suppliers to navigate and address the implications of this new supply chain law. As well as, exploring whether technology such as supplier onboarding system or cloud service can assist in this situation. Therefore, this research paper will be tackling the following research question which is structured with several sub-research questions.

Main research question:

“How will recent environment developments such as the Corporate Sustainability Due Diligence Directive (CSDDD) influence the evolution and interplay of global sourcing practices between EU buyers and Asian suppliers?”

Sub-research questions:

1. How are the advantages and disadvantages of Global Sourcing changing today?
2. How will the CSDDD influence the relationship between Asian suppliers and European buyers?
3. What are the antecedents to ensure trade relationships between Asian suppliers and European buyers?
4. How can suppliers and buyers support each other to work towards the CSDDD?

## **1.4 Methodology**

To answer the main research question, this research utilises data collection of using qualitative research methodology through conducting interviews with participants who have a characteristic of a supplier, particularly non-EU countries with tailored interview questions highly related to the research questions. The use of qualitative methodology aims to focus on collecting data for why and how questions, it also enables a natural flow during the interview while leaving spaces for interviewers to ask follow-up questions for more informative answers.<sup>17</sup> The collected data from interviews will then be transcribed into words and analysed using the thematic method. This method not just counting explicit words and phrases but also focusing on identifying and describing both explicit and implicit ideas within the data collected.<sup>18</sup> The codes used in the process will be referenced from literature studies such as the dynamic capability theory developed by David J. Teece, self-development, and generated during the coding process. This action will then help to develop a data structure followed by a dynamic model to illustrate the interconnectedness between codes and themes. Based on this methodology the research will provide theoretical and practical contribution about Asian suppliers and global sourcing practices.

## **1.5 Theoretical and practical contributions**

Based on the methodology, we found that suppliers need to have the ability to sense, seize, and transform their capabilities to be flexible to further support their global sourcing practices in the future once the CSDDD has been made mandatory. The approach varies between smaller-sized firms and larger-sized firms due to resource limitations.

Small firms are more likely to take a reactive approach compared to large firms due to a lack of resources, therefore, they sense the market change such as the establishment of CSDDD heavily rely on customer-oriented information instead large firms will conduct a proactive approach.

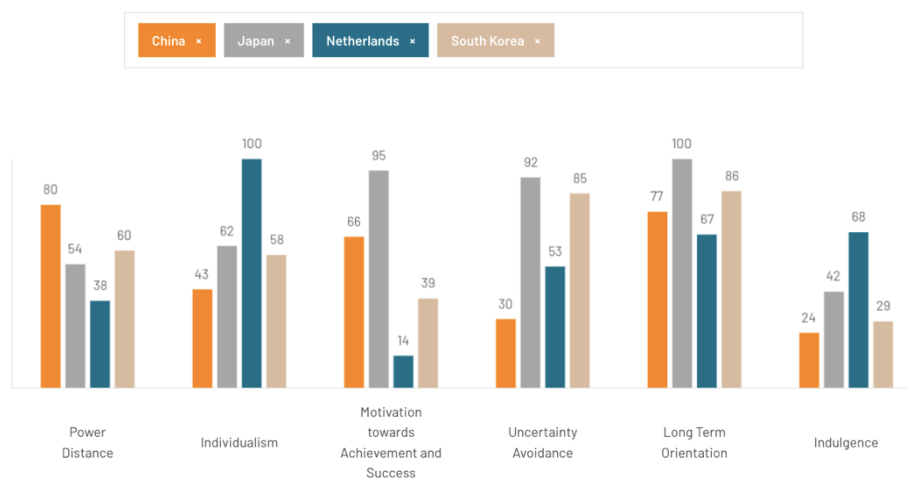
They actively collaborate with external consultancy firms to stay updated and prepare for changes. These approaches also apply to how suppliers will capture the changes in the market, known as seizing. Small firms will use a wait-and-see approach by referencing other firms and

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<sup>17</sup> See Noble and Smith (2014, p. 2)

<sup>18</sup> See Braun and Clarke (2006)

not being the first batch to apply CSDDD to reduce risks. On the other hand, instead of waiting for examples, large firms will create dedicated teams to take responsible for the CSDDD integration into the company by creating strategies/policies that will embed into the business. Furthermore, to better manage the market changes such as CSDDD, reconfiguring the company's complementary resources and capabilities are necessary. The application of technology, providing education and training due to cultural differences (see Figure 1), and collaborating with contractor firms can be the antecedents Asian suppliers can consider as a transformation approach to achieve CSDDD integration. The way we came to this result can be found in the thesis.



**Figure 1:** Hofstede's Cultural Dimensions – Comparison graph between Netherlands, China, Japan, and South Korea.

## 1.6 Structure of the paper

This thesis is structured and articulated in several sections (see Figure 2). **Chapter 1** identifies the predicted problems EU buyers and foreign suppliers may face when the CSDDD directive is introduced. It also provides readers with information such as the aim, objectives, and research question of this research paper. **Chapter 2** introduced the theoretical framework used in this thesis which is generated based on literature review. **Chapter 3** aims to present the research method used for this study to readers, it shows the research methodology considered and taken to action for this study and why these choices have been made. **Chapter 4** shows the analysis result of primary data collected from interviews that have been coded as well as the codes used. **Chapter 5** presents the discussion of the result analysed in Chapter 4 while comparing with previous literature studies on how the results align and or contrast with existing research.

**Chapter 6** will evaluate the identified limitations of this study as well as the recommendations for future research.



*Figure 2: Thesis Outline*

## **2 The enablers/antecedences of future Global Sourcing practices**

### **2.1 Historical perspective of Purchase and Supply chain management**

According to Pounder et al. (2013) research, supply chain management (SCM) can be broken down into three periods which were the 1980s, 1990s and 2000 to present.<sup>19</sup> Over the years, the literature about SCM has continuously evolved in response to the changes in the business environment driven by external influential factors and these changes were observed on a decade-by-decade basis.

In the 1980s, the SCM concept was developed and defined as a modernised supply logistics management by Oliver and Webber (1982).<sup>20</sup> Who defined SCM as systematic process planning, execution, and controlling the operations of the supply chain with the goal of satisfying customers' needs and wants efficiently.<sup>21</sup> SCM also encompasses activities such as transportation, raw-material storage, work-in-progress inventory, and finished goods ready for delivery to the consumption point. Following the 1990s, Research and Development started to appear in the SCM industry with rapid efforts used to make the system more internationally competitive, whereas in the mid-1990s the ICT strategies were instituted by governments with the appearance of e-commerce, B2B, and B2C electronic marketplaces as internet became more widespread to use.<sup>22</sup> Therefore, eventually incorporated into the supply chain<sup>23</sup> resulting in an

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<sup>19</sup> See Pounder (2013, p. 43)

<sup>20</sup> See Oliver and Webber (1982)

<sup>21</sup> See Pounder (2013, p. 44)

<sup>22</sup> See Pounder (2013, p. 43)

<sup>23</sup> See Samuelson and Varian (2001, p. 6)

utilised rate of e-commerce system. This also revolutionised global trade which enabled more companies, including small ones, to participate in the international market.<sup>24</sup>

Moving into the post-2000 era, it became clear that simply distributing raw materials to manufacturers or delivering finished products to customers was not enough to provide firms with a sustained competitive advantage in the global market.<sup>25</sup> Therefore, the definition of SCM expanded to include the management of manufacturing processes, the flow of materials within the company, and the associated logistical support. Due to globalisation, manufacturing firms have been divided into various segments, each firm operates in the most advantageous regions.<sup>26</sup> This decentralisation has drawn the importance of e-commerce in facilitating international trade and outsourcing, as well as enhancing information flow in supply chain management.<sup>27</sup> Amazon is the best example who well utilised the e-commerce system by introducing same-day delivery<sup>28</sup> and actively promoting which became their company brand in the market. At the same time, businesses begin to embrace the ideas of the circular economy<sup>29</sup> and reduce their carbon footprint due to the rising awareness of sustainable sourcing. This focus on sustainability has continued till today, driven by regulatory pressures<sup>30</sup>, customer demand for ethical products, and the necessity for robust supply chains in the face of major global disruptions like the COVID-19 pandemic. As a result, businesses continue to place a high priority on sustainability, which affects how they manage their supply chains to gain a sustained competitive edge and mitigate environmental impact.

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<sup>24</sup> See B. Petersen, Welch, and Liesch (2002, p. 4); Poon and Jevons (1997, p. 29)

<sup>25</sup> See Pounder (2013, p. 48)

<sup>26</sup> See Pounder (2013, p. 48)

<sup>27</sup> See Eng (2004, p. 97)

<sup>28</sup> See Ludwig Hausmann (2014, p. 1)

<sup>29</sup> See Bernon, Tjahjono, and Ripanti (2018, p. 2); Corona, Shen, Reike, Rosales Carreón, and Worrell (2019, p. 150); Goltsos et al. (2018, p. 2); Govindan and Hasanagic (2018, p. 1); Vadakkepatt et al. (2021, p. 9)

<sup>30</sup> See Saeed and Kersten (2019, p. 1)

## **2.2 Global sourcing as an enabler of competitive advantage**

### **2.2.1 History of Global Sourcing**

Global sourcing has evolved significantly over the past few centuries driven by several circumstances. According to Mol et al. (2002) report, the research on global sourcing was done by Kotabe and Omura in the late 1980s who proposed the idea of global sourcing involving sourcing components as well as final products instead of firms just seeking for international expansion.<sup>31</sup> Meanwhile, the apparency of the World Trade Organisation (WTO) replaced the General Agreement on Tariffs and Trade (GATT) dispute resolution system, which did not provide formal sanctions for breaching agreements, but does provide sanctions to those who violate WTO trade agreements.<sup>32</sup>

Global sourcing involves identifying and potentially entering into contracts with suppliers based in countries different from the purchasing company.<sup>33</sup> By engaging in global sourcing, firms can benefit from cost advantage by discovering previously unknown suppliers in low-wage countries, thereby enhancing profitability and competition status among existing supply bases, however, global sourcing can incur additional costs as well.<sup>34</sup> Global sourcing is beneficial and important for several reasons, but it still depends on the sophistication and motivation of a firm seeking international suppliers of critical materials inputs.<sup>35</sup> Further details on the benefits and barriers of global sourcing will be discussed in the subsequent chapters.

### **2.2.2 Reasons to Global Source**

Global sourcing provides companies with the opportunity to access to diverse range of materials, international markets, and cost advantages, which enhances their competitiveness and operational efficiency. Factors such as cost reduction, gaining access to technologies, and sharing risks with suppliers influence firms' decisions on whether or not to enter the global market.

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<sup>31</sup> See Mol, Tulder, and Beije (2002, p. 2)

<sup>32</sup> See Schwartz and Sykes (2002, p. 1)

<sup>33</sup> See Schiele (2019, p. 57)

<sup>34</sup> See Schiele (2019, p. 57)

<sup>35</sup> See Bozarth, Handfield, and Das (1998, p. 242)



The major and most important reason for companies to consider outsourcing activities is the potential for significant cost reductions (see Figure 3).<sup>36</sup> By sourcing materials, components, and workforce from other countries where expenses are lower, businesses can substantially reduce their overall manufacturing costs. Lower wages in foreign countries such as developing countries, coupled with favourable exchange rates and reduced tariffs<sup>37</sup> contribute to these cost advantages.<sup>38</sup> Additionally, global sourcing enables firms to take advantage of economies of scale<sup>39</sup> by consolidating their purchasing power and negotiating for better prices. The cost saved can then be reinvested into the other areas of the business, such as research and development, new product innovation, or marketing, to foster competitiveness in the market. Overall, cost reduction is the main reason why companies outsource from other countries, it does not just benefit the company from cost saving but also optimises operation, continuously innovating, and achieving sustainable growth in competitive global markets.

Moreover, according to Figure 3, gaining access to information technology (IT) ranked as the second most important reason why businesses outsource from other countries.<sup>40</sup> This practice allows firms to access advanced technologies and expertise that may not be available domestically. In today's increasingly digital and interconnected global market, accessibility to advanced technologies is essential for maintaining competitive advantage.<sup>41</sup> By sourcing technologies and intellectual globally, businesses can leverage specialised skills, innovative solutions, and the latest technological advancements from around the world. This not only enhances operation efficiency but also drives innovation and product development in a cost-effective manner. Furthermore, access to advanced technologies provides firms with the scalability and flexibility to quickly adapt to continuously changing market demands and technological trends. This ensures that firms can stay ahead in the competitive market by utilising technological capabilities to support growth and innovation.

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<sup>36</sup> See Ferruzzi, Neto, Spers, and Ponchio (2011, p. 51); Salmi (2006, p. 474)

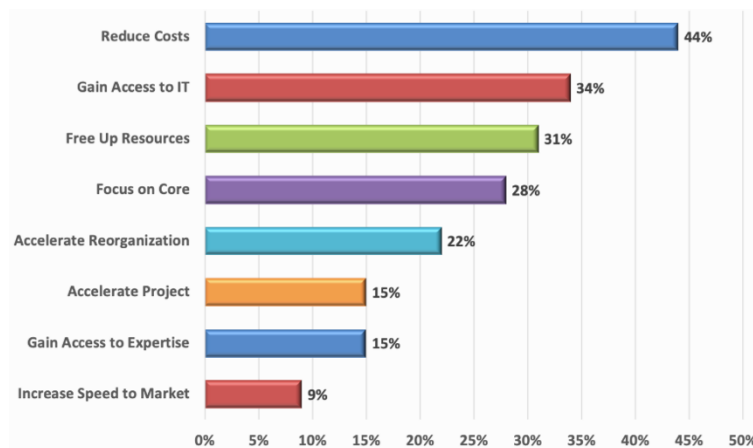
<sup>37</sup> See Chaudhuri and Yabuuchi (2007, p. 4)

<sup>38</sup> See Jiang and Tian (2010, p. 12)

<sup>39</sup> See Gonzalez, Gasco, and Llopis (2016, p. 227)

<sup>40</sup> See Marvin (2011, p. 14)

<sup>41</sup> See Bozarth et al. (1998, p. 242)



**Figure 3:** Drivers of global sourcing according to Statista (2024, May 24), Global market size of outsourced services 2000-2019 (in billion U.S. dollars) from <https://www.statista.com/statistics/189788/global-outsourcing-market-size/>

Lastly, it is also interesting to look into the spreading risks with the firm’s supplier during outsourcing and at the same time obtain positive attributes from those suppliers.<sup>42</sup> Having a diverse supplier base across various geographic regions can mitigate the risks associated with relying on a single supplier.<sup>43</sup> This geographical diversification helps protect against disruption caused by events such as natural disasters, political instability, or the most recent pandemic COVID-19. In addition, outsourcing from multiple suppliers in many regions can reduce the impact of supply chain disruptions and ensure stable supply. It also benefits firms with higher savings compared to single sourcing.<sup>44</sup> Spreading risks in this manner, enables them to respond more effectively to unforeseen challenges and maintain steady production levels and service.

Overall, there are numerous strategic advantages that attract companies to global sources. These advantages include cost reduction, access to new and advanced technologies, and risk mitigation through geographical diversification. By lowering manufacturing expenses, firms can invest more in the field of innovation and development to maintain a technological edge. Geographical diversification mitigates risks associated with relying on multiple suppliers in order to ensure supply chain stability. Together, these advantages help firms sustain their competitive position and profitability in the global market.

<sup>42</sup> See Kremic, Icmeli Tukel, and Rom (2006, p. 469)

<sup>43</sup> See Todo and Inoue (2021, p. 309)

<sup>44</sup> See Silbermayr and Minner (2014, p. 41)

### **2.2.3 Barriers to Global Sourcing**

Despite the advantages discussed above, global sourcing also presents several significant barriers that firms must consider and monitor before successfully integrating international suppliers into their supply chains. In this paper, three categories of barriers will be discussed, including economic and political barriers, culture and communication, as well as ethics and sustainability.

As aforementioned the major reason companies engage in outsourcing activities is cost reduction, however, there will be certain hidden costs that will be involved in the trading process. The hidden costs are not related to the actual operation and supply chain but they will impact the business environment, these costs include currency fluctuations and changes in the political climate or regulatory framework leading to an uncertain market.<sup>45</sup> Additionally, hidden costs often do not appear in the overheads for individual ventures, but are included in general overheads as the management accounting systems are not sophisticated enough to attribute increased overhead to specific supply contracts. For example, firms may face security risks, as many developing countries identified for low-cost sourcing are subject to political uncertainty or internal political turmoil. This risk can lead to an uncertain market, which needs careful assessment to determine whether offshore suppliers can reliably provide products. Failure to do so can result in significant supply chain problems.<sup>46</sup>

Another major barrier to global sourcing will be cultural and communication. Differences in language, business practices, and cultural norms can lead to misunderstandings and miscommunications between suppliers and buyers.<sup>47</sup> These barriers can affect the negotiation process, contract terms, and daily interactions, which may potentially result in delays and errors. Moreover, varying cultural attitudes towards hierarchy, time management, and decision-making processes can create friction and inefficiencies which align with one of the dimensions established by Hofstede. In order to effectively global sources, it is necessary to have a deep

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<sup>45</sup> See Holweg, Reichhart, and Hong (2011, p. 335); Jiang and Tian (2010, p. 15)

<sup>46</sup> See Jiang and Tian (2010, p. 15)

<sup>47</sup> See Cannon, Doney, Mullen, and Petersen (2010, p. 506); Humphreys, Shiu, and Lo (2003, p. 240); Lohmann (2011, p. 159)

understanding of the cultural differences between countries. Companies can consider providing training on related topics, utilising technologies to enhance communication, and employing bilingual staff.<sup>48</sup> By addressing cultural and communication barriers, firms can foster more effective and smooth international trade.

Last but not least, in recent years, ethical and sustainability concerns of the public and customers have become crucial factors for firms to consider. Companies are increasingly pressured to ensure their supply chains operate with ethical standards and sustainability practices. This shift is driven by growing public awareness of issues like child labour, poor working conditions, and environmental degradation. And CSDDD is an example of an ethical and sustainability barrier that addresses how regulatory frameworks are evolving. This newly established due diligence requires companies to identify, prevent, and mitigate adverse impacts on human rights and environmental impact within all supply chains including both direct and indirect suppliers. Besides fostering better business practices, these requirements also seek to ensure that human rights and environmental concerns are addressed in corporate governance within the EU and internationally.<sup>49</sup> As a result, companies now face additional layers of complexity in global sourcing, balancing cost and efficiency with ethical and sustainable criteria.

Overall, economic and political factors, culture and communication challenges, as well as ethical and sustainability concerns, are critical barriers that firms should consider when participating in global sourcing activities. These barriers can significantly affect the effectiveness and efficiency of the sourcing process.



*Figure 4: The barriers and drivers of the global sourcing model*

<sup>48</sup> See Šmite, Moe, and Gonzalez-Huerta (2021, p. 5)

<sup>49</sup> See Felbermayr, Friesenbichler, Gerschberger, Klimek, and Meyer (2024, p. 29)

## **2.3 The change elements in the Global Sourcing environment are shaped by various factors that influence the Global Sourcing decision**

### **2.3.1 Reducing Global Sourcing Practices - Corporate Sustainability Due Diligence Directives (CSDDD)**

The operation behaviour of companies across all sectors of the economy is one of the keys to achieving the European Green Deal of the European Commission's transition to a climate-neutral and green economy<sup>50</sup> to deliver the sustainable development goals of human rights and environmental-related objectives.<sup>51</sup> To achieve this, companies should consider integrating sustainability into their corporate governance and management systems. This involves framing business decisions in terms of human rights, climate, and environmental impact, as well as considering the company's resilience in the longer term. Furthermore, it requires implementing comprehensive mitigation processes for adverse human rights and environmental impacts throughout the company's value chain. European companies, especially the large ones, operate in and rely on a complex global value chain.<sup>52</sup> With numerous suppliers within the EU and internationally, along with the complex value chain, the EU companies may encounter challenges when addressing and tackling risks related to achieving their responsibilities concerning human rights and environmental impacts.<sup>53</sup> Due to the crisis of COVID-19, the difficulty is compounded, which has worsened the conditions for specific workforce segments in the global supply chains.<sup>54</sup>

The corporate sustainability due diligence directive (CSDDD) aims to address these challenges by fostering sustainable and responsible business behaviour to anchor human rights and environmental considerations as well as corporate governance<sup>55</sup> in the EU and internationally.<sup>56</sup> By implementing the due diligence processes as outlined in the CSDDD, companies can better navigate the difficulty of their value chains, identify potential risks, and mitigate adverse impacts

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<sup>50</sup> See Commission. (2021, p. 1)

<sup>51</sup> See EUROPEAN COMMISSION (2022, p. 1)

<sup>52</sup> See Spinaci (2023, p. 2)

<sup>53</sup> See Sabadie (2014, p. 668)

<sup>54</sup> See Spinaci (2023, p. 2)

<sup>55</sup> See European Commission (2022 p. 1); Mak (2022, p. 301); SGSCorp. (2024, p. 1)

<sup>56</sup> See Union (2023, p. 1)

on both human rights and environmental conditions.<sup>57</sup> The proposal of CSDDD was submitted on the 23<sup>rd</sup> of February 2022 by the commission to the European Parliament and the council.<sup>58</sup> This directive mainly applies to large companies with characteristics of having over 500 employees and an overall turnover exceeding € 150 million generated in the EU.<sup>59</sup> Additionally, CSDDD will apply to EU-based firms in the “high-impact sectors” that generated more than €20 million in annual turnover and more than 250 employees. However, currently, the finance service sector is excluded from this directive. The due diligence establishes guidelines for large businesses' responsibilities concerning actual and potential negative effects on human rights and the environment for their supply chain, which includes some downstream activities like recycling and distribution as well as upstream business partners. In other words, firms operating in the EU have to make sure that they operate under the consideration of ethical, environmental, and labour standards. Furthermore, CSDDD mandates that companies are required to integrate this diligence into company policies and management systems to identify risks.<sup>60</sup> Where implementing risk management systems and a grievance mechanism is essential. Additionally, they are required to produce an annual report outlining the due diligence efforts, and objectives, and evaluating the effectiveness of the due diligence measures.

The due diligence has a particular focus on high-impact sector companies which includes wholesale trade of textiles and agricultural raw materials, clothing and footwear, manufacturing of textiles, leather, basic metal products etc. These sectors are recognised as being highly susceptible to negative impacts and having a significant risk of human rights and environmental standards violation.<sup>61</sup> Although the financial services sector is not included in the CSDDD directive, the sector remains responsible for adapting and implementing climate transition plans to ensure that their business models align with efforts to limit global warming to 1.5 degrees Celsius of the Paris Agreement.<sup>62</sup>

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<sup>57</sup> See EUROPEAN COMMISSION (2022, p. 1)

<sup>58</sup> See Union (2023, p. 1)

<sup>59</sup> See Union (2023, p. 1)

<sup>60</sup> See Felbermayr et al. (2024, p. 29)

<sup>61</sup> See Felbermayr et al. (2024, p. 29)

<sup>62</sup> See Felbermayr et al. (2024, p. 29)

Companies that violate the new regulation will face penalties and civil liability for failing to meet their duties. If the company breach the directive and fails to pay the penalty, it will be fined by several injunction measures through the consideration of the company's turnover (i.e. minimum or maximum of 5%of the company's net turnover) that is stated in the provisional agreement.<sup>63</sup> Besides this penalty, the company that fails to comply with CSDDD can also lead to loss of EU public procurement access and reputational costs for the importer.

At the moment the CSDDD is still awaiting final approval<sup>64</sup> as it has led to numerous questions in multiple legal areas and only a few have been examined.<sup>65</sup> Once the CSDDD is adopted, the EU member countries will have to transpose the directive into national law within two year time.<sup>66</sup> This implies that countries that do not have supply chain-related due diligence laws, like Austria, will need to establish a national supply chain regulation within the time frame.<sup>67</sup> Meanwhile, countries such as Germany, the Netherlands, and France which already have such legislation, must ensure their laws meet or exceed the standards set by the EU directives.<sup>68</sup> If a country fails to transpose a directive, in this case, the CSDDD directive, the European Commission may initiate infringement proceedings and sue the country to the Court of Justice of the European Union.<sup>69</sup> Non-compliance with the court's judgement on this occasion can result in a new conviction and fines.

### ***2.3.1.1 The establishment of Corporate Sustainability Due Diligence Directives (CSDDD)***

The CSDDD was formulated with reference to the Corporate Sustainability Reporting Directive (CSRD).<sup>70</sup> The CSRD covers a wide array of ESG (environmental, social, and governance) aspects, mandating comprehensive disclosure requirements it is developed as part of the European Green Deal<sup>71</sup> and the directive needs an external auditor to ensure the sustainability

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<sup>63</sup> See EUROPEAN COMMISSION (2022, p. 5); Union (2023, p. 1)

<sup>64</sup> See S. Banker (2024, p. 1); Felbermayr et al. (2024, p. 30)

<sup>65</sup> See Stricker (2023, p. 165)

<sup>66</sup> See EUR-Lex (n.d.)

<sup>67</sup> See Grösswang (2024)

<sup>68</sup> See Felbermayr et al. (2024, p. 30)

<sup>69</sup> See EUR-Lex (n.d.)

<sup>70</sup> See Felbermayr et al. (2024, p. 29)

<sup>71</sup> See Comission (n.d.)

report.<sup>72</sup> It applied to all large companies and all listed companies requiring to implementation of new systems, processes, governance structure, and publication of extensive data and information on the impact of their activities on people and the environment.<sup>73</sup>

According to Felbermayr et al. (2024) research, the due diligence CSDDD is different from previously established supply chains legislation such as CSR and ESG in multiple ways. Firstly, CSDDD is one of the few legal acts in the EU that cover both human rights and environmental impacts of a company's supply chain. Moreover, it involves both the direct and indirect supplier (i.e. supplier's supplier to n-tier supplier) of a company and also the upstream and some downstream in the value chain for example distribution or recycling. Furthermore, CSDDD requires companies to disclose their risk mitigation management which is an advanced reporting guideline compared to previous legislation which closes the regulatory gaps that have not been considered.<sup>74</sup>

### ***2.3.1.2 Advantages of CSDDD***

The implementation of the CSDDD aims to resolve potential impacts on human rights and environmental issues throughout a company's supply chain including its suppliers. This proactive approach not only helps companies mitigate risks associated with unethical practices such as child labour that may be carried out by suppliers but also enhances corporate transparency and accountability. The direct examples of companies applying the CSDDD are currently unavailable as it has not yet been adopted by the European Commission. But we can anticipate its potential advantages by drawing parallels to similar frameworks like Corporate Social Responsibility and ESG.

Corporate social responsibility (CSR) is a business model that enables a company to maintain social accountability to itself, its stakeholders, and the general public.<sup>75</sup> According to research, Weber (2008) discussed CSR activities yielding several key business benefits based on

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<sup>72</sup> See PwC

<sup>73</sup> See PwC

<sup>74</sup> See Felbermayr et al. (2024, p. 29)

<sup>75</sup> See Robins (2005, p. 96); Wiśniewski (2015, p. 18)



theoretical analysis.<sup>76</sup> These include enhancing company image and reputation as CSR has the power to positively influence reputation through diversity of workforce, product and environmental issues, and community relations.<sup>77</sup> Moreover, integrating CSR into business models can mitigate risks associated with legislation and regulatory compliance.<sup>78</sup> Finally, companies who take sustainability actions such as material substitution, reducing energy consumption in the production process, and minimising packaging can lead to cost savings/reduction while also improving customer satisfaction.<sup>79</sup>

ESG, environmental (E), social (S), and governance (G), are viewed as an extension of CSR and social responsiveness investment (SRI).<sup>80</sup> Due to the growing awareness of the public, companies' implementation of sustainability strategies benefits both the company itself and its stakeholders by promoting sustainable and responsible business practices. These practices improve company financial performance<sup>81</sup> and risk management, enhance stakeholder engagement<sup>82</sup>, and contribute to broader environmental goals.

With the above research, several potential benefits that companies can expect from adopting CSDDD in the future become apparent. Companies actively addressing human rights and environmental issues within their supply chain can enhance company image and reputation, improve public image, and stakeholders increasingly prioritise ethical practices.

### ***2.3.1.3 Drawbacks of CSDDD***

As aforementioned, CSDDD requires companies to integrate this due diligence into company policies and management systems, as well as publish an annual report outlining the due diligence efforts. These extra actions will initially incur additional expenses related to new process

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<sup>76</sup> See Weber (2008, p. 248)

<sup>77</sup> See C. Mi, Chang, Lin, and Chang (2018, p. 2); Pelozo and Shang (2011, p. 129); Schaltegger and Burritt (2005, p. 56); Schwaiger (2004, p. 36)

<sup>78</sup> See Jo and Na (2012, p. 452)

<sup>79</sup> See Epstein and Roy (2001, p. 598); Kong, Salzmann, Steger, and Ionescu-Somers (2002, p. 112); Pelozo and Shang (2011, p. 130)

<sup>80</sup> See Helfaya, Morris, and Aboud (2023, p. 3)

<sup>81</sup> See Mohammad and Wasiuzzaman (2021, p. 9); Nguyen, Hoang, and Tran (2022, p. 99)

<sup>82</sup> See Gifford (2010, p. 97)

implementation, new technology system adoption, and the possibility of hiring specialised personnel to oversee compliance with CSDDD. This statement can be supported by Mi's (2023) research, where investing in green projects for sustainable business development sometimes significant financial investment in the initial period before generating profit is necessary<sup>83</sup>, resulting in an increase in business operational cost and affecting investor's financial obligations.<sup>84</sup>

Moreover, another challenging problem for procurement organisations is to ensure that they are ethically sourcing across multiple tiers of their comprehensive end-to-end supply chain. This is a very difficult problem to solve as it requires focusing not only on the procurement organisation's direct suppliers but also on their suppliers' suppliers, extending up to the n-th tier. This complexity is compounded by the need to trace the origin of labour practices, materials, and environmental impact throughout the entire production process and supply chain. As a result, suppliers may need tools such as technologies or strategies to foster collaboration relationships with all suppliers in the supply chain to achieve CSDDD regulations. However, currently, the market lacks an effective solution that procurement organisations can adopt to achieve this goal. Furthermore, in the long term, this may incentivise corporations to shorten their supply chains to comply with CSDDD rules and regulations, resulting in suppliers within the supply chain losing their business relationships.<sup>85</sup>

Once again, these disadvantages of CSDDD have been predicted through research and referencing from similar legislation, indicating that the challenges and financial burdens imposed by such regulations are not unforeseen. Therefore, further research is required.

### **2.3.2 Antecedents Enabling Global Sourcing**

Global sourcing has become an essential part of the strategic sourcing and procurement practices of firms seeking competitive advantages in a globalised market. This practice involves a complex process of evaluating, engaging, and managing resources across international borders.

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<sup>83</sup> See J. Mi (2023, p. 5274)

<sup>84</sup> See S. Banker (2024)

<sup>85</sup> See Villiers (2022, p. 565)

Consequently, it is interesting to explore the antecedents that enable global sourcing in today's world. In this chapter drivers such as technology advancement, and liberalisation of trade policies will be discussed.

### ***2.3.2.1 Technology Advancements***

Technological advancements have significantly lowered the barriers to global sourcing, facilitating communication, coordination, and logistics. By improving communication and collaboration between parties technical software such as digital platforms, cloud computing, E-procurement systems and IoT (internet of things) play a crucial role in this situation.

Digital platforms such as emails, messaging applications (What's App, WeChat, and Line), and video conference platforms (Microsoft Teams and Zoom). These platforms allow firms to communicate easily without any restrictions like time differences locally or internationally.<sup>86</sup> Through the use of blockchain, firms can enhance transparency in information sharing within the business network. This application can improve processes and safety as data are stored in a decentralised way.<sup>87</sup> Transparency of information is achieved due to the focus on one specific supplier and supply chain, leading to enhanced traceability, accountability, and trust among all participants. The decentralised nature of blockchain ensures that data is only accessible to authorised parties, fostering a more secure and reliable environment for information exchange between buyer and seller which can improve buyer-supplier relationships.

Additionally, the electronic purchasing systems consist of three elements, which are E-procurement, E-sourcing, and E-marketplace. These systems use digital technology to automate the procurement processes, and manage procurement of goods/services, as well as an online platform for transaction activities between buyer and seller. This results in reduced administrative burden and improves efficiency. Furthermore, IoT (Internet of Things), acts as a sensor that connects to devices to monitor and tackle the activity of goods throughout the supply chain which offers insights into location, condition, and movement.<sup>88</sup>

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<sup>86</sup> See Puspitawati (2021, p. 47)

<sup>87</sup> See Tijan, Aksentijević, Ivanić, and Jardas (2019, p. 6)

<sup>88</sup> See Khan et al. (2022, p. 2)

Nevertheless, to achieve all these advancements in systems, the internet invention is the most important driver. Without the widespread use of the internet, these technology systems would not exist.

### ***2.3.2.2 Liberalisation of Trade Policies***

Liberalisation of trade policy through the reduction of tariffs and quotas as well as encouragement of foreign direct investment (FDI) which significantly enhances global sourcing activities.

Through lowering or eliminating tariffs and quotas input, countries can make it more cost-effective for businesses to import and export goods.<sup>89</sup> Historically, trade policies like tariffs directly increased the price of imports leading to a reduction of demand for imports<sup>90</sup>, which discouraged companies seeking international suppliers and markets. However, when governments reduce or remove these barriers, countries will be able to create a more cost-effective and competitive environment for firms to operate in. In other words, this allows firms to source better materials and products from worldwide suppliers, enhance efficiency, and provide consumers with a wider variety of goods at a lower price. Thus, the reduction of tariffs and quotas facilitates a more interconnected global economy, enhances trading protection, and enables businesses to take full advantage of international sourcing.

Furthermore, FDI enables global sourcing by creating a conducive environment that attracts foreign investors through enhancing stability and predictability in business operations. As countries adopt reforms to protect foreign investors' rights, protect intellectual property, and streamline regulatory processes, they become more attractive to international investors. In addition, international investors can boost local economies by capital inflows and improve quality and local supply to meet the global market's standards, ultimately benefiting them.<sup>91</sup> Moreover, FDI facilitates the transfer of knowledge across countries by introducing advanced

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<sup>89</sup> See Amiti, Dai, Feenstra, and Romalis (2020, p. 11)

<sup>90</sup> See Metzler (1949, p. 345)

<sup>91</sup> See Amendolagine, Presbitero, Rabelotti, Sanfilippo, and Seric (2017, p. 6)

technologies, managerial expertise, and best practices. FDI did not just benefit foreign investors for advantages such as cost-efficiency but also the local country by boosting trade volumes as well as creating more job opportunities through factory investment, thereby improving the local economy.

Overall, as the world grows rapidly, we gain the capability to innovate and advance technology, which can improve efficiency and overcome critical restrictions. It also creates the awareness of interconnecting with foreign countries not just to improve relationships but also to help each other access advanced goods/services in regulation protection.

#### **2.4 The role of suppliers in Global Sourcing**

Suppliers play a curious role in the global sourcing environment by profoundly influencing the supply chain resilience and competitive advantage of their buyers.<sup>92</sup> Their contributions are essential to controlling supply risks like production disruptions and regulatory changes<sup>93</sup> and ensuring the continuity and reliability of supply chains.<sup>94</sup> Suppliers are strategically important for buyers' supply chain as they directly impact the quality and reliability of the products<sup>95</sup>, therefore, adhering to high standards and meeting specifications is crucial for customer satisfaction and brand reputation. Moreover, supplier flexibility and responsiveness in production/delivery quantities and qualities enable businesses to adapt to changing market dynamics, maintain agility, and seize opportunities to respond to shifts in customer demand.<sup>96</sup> The collaborative relationship between buyer and supplier enables shared goals, continuous improvement, and performance improvement across the supply chain as well as an overall business operation.<sup>97</sup> Ultimately, suppliers not only fulfil operational requirements but also strategically influence competitive strategies, foster growth, and promote resilience in the global market.

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<sup>92</sup> See Hosseini and Khaled (2019, p. 207)

<sup>93</sup> See Hosseini and Khaled (2019, p. 215)

<sup>94</sup> See Kamalahmadi and Parast (2015, p. 1)

<sup>95</sup> See Noshad and Awasthi (2015, p. 466); Xia, Bin, and Lim (2008, p. 877)

<sup>96</sup> See Zhang, Vonderembse, and Lim (2003, p. 173)

<sup>97</sup> See Nyaga, Whipple, and Lynch (2010, p. 105)

Suppliers in global sourcing environments often have numerous concerns that can impact their operations and relationships with buyers. The most visible concern of suppliers in an international trade will be financial risks. They will be worrying about receiving payment on time and managing currency fluctuation. In practice, suppliers usually offer permissible delay payment to their buyers and during the permissible delay period, no interest will be charged.<sup>98</sup> However, suppliers cannot guarantee that all customers will pay on time and late payments can lead to cash flow problems which can directly impact their daily operations. To mitigate this risk, customers who fail to pay on time will be charged interest on the outstanding amount.<sup>99</sup> Moreover, according to Holweg et al. (2011) and Golini and Kalchschmidt's (2011) research, Carter and Vickery's (1989) currency exchange rate is also another important financial risk that suppliers are concerned about.<sup>100</sup> Currency fluctuation can lead to unpredictable changes in a company's profit margin<sup>101</sup> which is often driven by economic inflation. Furthermore, customer demand fluctuation is also a significant concern for suppliers, as they can affect production planning and ensure uninterrupted supply to meet customer's demands.<sup>102</sup>

Beyond operational concerns, suppliers have fears about their position and stability in the global market. One major fear for suppliers engaging in global trade activities is the risk of local copying and information leakage.<sup>103</sup> To mitigate this risk, suppliers restrict global customers from sourcing large volumes by only selling components but not entire systems to prevent unauthorised replication, which can lead to a loss of competitive advantage in the market. This cautious approach aims to protect proprietary technologies and maintain the supplier's market position. Another fear of suppliers in global trade is the potential sudden changes such as political changes or global crises like the COVID-19 pandemic. For instance, establishing new trade tariffs or trade restrictions can impact sourcing by making it difficult or more expensive to source/trade.<sup>104</sup> In regards to the global crisis, the COVID-19 pandemic does have negative

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<sup>98</sup> See Chen, Cárdenas-Barrón, and Teng (2014, p. 1)

<sup>99</sup> See Chen et al. (2014, p. 1)

<sup>100</sup> See Carter and Vickery (1989); Golini and Kalchschmidt (2011, p. 4); Holweg et al. (2011, p. 335)

<sup>101</sup> See Shapiro (1975, p. 491)

<sup>102</sup> See Holweg et al. (2011, p. 335)

<sup>103</sup> See Salmi (2006, p. 203)

<sup>104</sup> See Curran, Nadvi, and Campling (2018, p. 873)

effects on international trade activities.<sup>105</sup> One significant issue is the increased cost of transportation, driven by rising port terminal and handling costs. These increases in costs are due to several factors such as labour shortages, delays caused by lockdown and quarantine measures, as well as heightened health and safety protocols. These extra costs will affect the company's profit margin and daily operations.

In conclusion, suppliers play a crucial role in global sourcing, influencing both supply chain resilience and product quality. However, they also face significant concerns and fears in international trade, particularly payment and financial risks, as well as political changes and global crises. These factors can directly impact profit margins and the daily operation of an organisation. It also highlights the complex challenges suppliers navigate to maintain stability and competitiveness in the global marketplace.

#### **2.4.2 Supplier capabilities**

By understanding the dynamic capabilities theory (DCT) we can understand how suppliers can manage and overcome the challenges associated with global sourcing. Teece et al. (1997) defined dynamic capability theory as “the firm's ability to integrate, build, and reconfigure internal and external competencies to address a rapidly changing environment”.<sup>106</sup> The theory represents a business's capacity to achieve new and innovative competitive advantages by taking into account its path dependencies and market position.<sup>107</sup> This concept was derived from the resource-based view (RBV) theory to be tailored to dynamic environments and applied to more complex systems such as supply chains.<sup>108</sup> In addition, in order to build the operational basis of DCT rely on the key corporate-level activities – 1. Sensing opportunities and threats, 2. Shaping/seizing opportunities, and 3. Maintaining competitiveness by reconfiguration and transformation.<sup>109</sup>

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<sup>105</sup> See Hayakawa and Mukunoki (2021, p. 1)

<sup>106</sup> See Teece et al. (1997, p. 516)

<sup>107</sup> See Kathleen M. Eisenhardt and Martin (2000, p. 516)

<sup>108</sup> See Bleadly, Ali, and Ibrahim (2018, p. 2)

<sup>109</sup> See Teece (2007, p. 1319)

According to the research of Matysiak et al. (2017), sense refers to the ability of an organisation to identify and assess opportunities and threats in the economic market.<sup>110</sup> It involves continuous scanning, monitoring, and interpreting information from various sources to detect changes, trends, and emerging patterns that could impact the firm. This capability is crucial for maintaining a competitive edge because it allows firms to anticipate market changes, technological improvements, and competitor actions to make proactive decisions. For instance, a firm recognition of the future source of competitive advantages through the assessment of the value of resource-capability recombination.<sup>111</sup> In other words, sensing not only involves gathering data but also making sense of the information strategic choices and innovation initiatives.

Moreover, seizing/shaping opportunities refers to a firm's ability to address and capture new opportunities and threats effectively through expedient investments to create and exploit new competitive advantages.<sup>112</sup> Seizing allows firms to respond and adapt to market changes and ensure they can maintain or enhance their competitive advantages.<sup>113</sup> This might include restructuring the business model, developing new products and services, as well as investing in new technologies. Effectively seizing the sensed opportunities, companies will be able to navigate uncertainty and remain competitive in the dynamic and changing markets.

Furthermore, transforming involves managing change by reconfiguring a firm's core and complementary resources and capabilities in day-to-day operations to enhance them.<sup>114</sup> Its main goal is to ensure the sensed opportunity/threat is achieved through seized evaluation in daily operations. This process involves aspects such as implementing structural and procedural changes within the business to ensure agility and responsiveness to maintain the business's competitive position in the market. Therefore, businesses proactively and strategically modify their resource base to achieve and sustain greater economic value than their competitors.<sup>115</sup>

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<sup>110</sup> See Matysiak, Rugman, and Bausch (2018, p. 230)

<sup>111</sup> See Matysiak et al. (2018, p. 232)

<sup>112</sup> See Matysiak et al. (2018, p. 230)

<sup>113</sup> See Sull and Ruelas-Gossi (2010, p. 58)

<sup>114</sup> See Matysiak et al. (2018, p. 230)

<sup>115</sup> See Helfat and Peteraf (2009, p. 24)



To conclude, understanding and effectively applying DCT is crucial for suppliers aiming to navigate the complexities of global sourcing. Through the key activities of sensing, seizing and transforming capabilities, firms can proactively manage changes and capitalise on new innovations. This strategic approach not only allows firms to survive but thrive in the dynamic market, enhance long-term success and sustain economic value. DCT provides firms with a robust framework in order to continuously adapt and stay competitive in the continuously changing global market.

### **2.4.3 The antecedents based on research as an enabler to achieve the CSDDD**

In this chapter, we will identify and discuss the possible antecedents that enable Asian suppliers to meet the due diligence to enhance their trade with EU companies.

In chapter 2.3.1.3, we discussed the drawbacks of CSDDD and one of the drawbacks was about ensuring that the procurement organisations are sourcing ethically across multiple tiers of their comprehensive end-to-end supply chain. This is a difficult problem to solve as it requires the need to trace the origin of labour practices, materials production process, and environmental impacts throughout the supply chain including the procurement organisation's direct supplier and their supplier's supplier, extending up to n-th tier. As a result, the procurement organisation may need to have auxiliary tools such as technology systems to foster collaboration relationships with all suppliers in the supply chain to meet CSDDD regulations. According to research from Banker (2024) and Posner (2024), the development and application of technology systems can play a crucial role in the success of the CSDDD. Based on the report of Banker (2024), the report suggested two example technology systems that companies can adopt to meet CSDDD which are Everstream AI and Exiger.<sup>116</sup> Artificial Intelligence (AI) uses natural language processing to generate modern supply risk solutions that heavily rely on Big Data. For instance, reading online publications and other data sources, making sense of what they read, contextualising the data into information, and reporting supply chain disruptions caused by weather, geopolitical events and other hazards in near time. Exiger, as an example, is a supply chain risk management system that

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<sup>116</sup> See Banker (2024)

helps organisations identify, assess, and mitigate risks related to sustainability, compliance, and operational efficiency within the supply chains. The system employs multitier mapping through surveys using government supply chain regulations allowing contracts to mandate vendors to disclose upstream suppliers. AI-based prediction using OpenWeb searches, import/export records, and other data sources accelerates a company's capability to verify how its extended supply chain is constructed.<sup>117</sup>

Furthermore, based on Posner's (2024) report, the development of technology systems to gather and access more and better data such as health and safety standards, hours of work and compensation for overtime, and prohibitions against child and forced labour is an important tool to the success of CSDDD.<sup>118</sup> However, the government or in this case the EU Commission plays a crucial role in this development project. By developing such a system through the EU Commission/government, they are able to provide clear guidelines and expectations for compliance to support companies in the process of adoption. This not only provides businesses with clearly stated obligations but also ensures a level playing field where all companies are held to the same standard. Which can achieve greater transparency and accountability across supply chains.

Additionally, transparency and traceability can be another auxiliary tool to meet the CSDDD regulation. Transparency ensures that businesses maintain honest and open communication about their production process which allows stakeholders to verify compliance and foster trust.<sup>119</sup> This openness and honesty in the supply chain help suppliers to meet CSDDD requirements by providing clear documentation of the company's effort in mitigating environmental and social risks. Traceability achieves this by ensuring each step of the production process meets the sustainability standards which provides concrete evidence of compliance with CSDDD regulations. Through the integration of transparency and traceability into business operations, companies can more effectively meet the requirements of CSDDD, utilising any technology adoption, and ensuring their competitive position in the global market.

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<sup>117</sup> See Banker (2024)

<sup>118</sup> See Posner (2024)

<sup>119</sup> See Oliveira and Handfield (2017, p. 444)

## **2.5 A research framework that describes the influence of supplier capabilities on global sales practices**

The influence of supplier capabilities on global sales practices can be understood through a comprehensive research framework that examines the barriers and drivers of global sourcing, the outcome and effect will benefit suppliers from global sourcing, and the application of dynamic capabilities to overcome challenges to enhance global market performance.

The comprehensive research framework (see Figure 5) was developed with reference to the ABCDE framework generated by Kalaiarasan et al. (2022). The ABCDE framework includes four elements – antecedent (A), barriers and challenges (BC), drivers (D), and effect (E), which provide a holistic view of a topic.<sup>120</sup> The framework can identify and leverage supplier capabilities to enhance global sales practices while providing a structured approach to examine the interplay between supplier competencies, barriers, and antecedents in the global market.

The elements of barriers and challenges, drivers and effects of global sourcing were evaluated based on literature reviews as discussed in Chapter 2.2. The primary drivers identified factors like cost reduction, gaining access to IT, and spreading risk by diversifying geographical locations, as illustrated in Figure 3. These drivers play a critical role in motivating firms to global sources to optimise their operations, and sales revenue, and adapt to dynamic market conditions. The element effect anticipated through these drivers on performance is substantial. Businesses that global sources can achieve cost-saving,<sup>121</sup> competitive advantage,<sup>122</sup> and stabilise their position in the global market. For firms who have the ability to maintain a competitive position in today's rapidly changing market, their performance improvement manifests for instance, increased profitability, greater market share, and long-term sustainability stabilised their market position.

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<sup>120</sup> See Kalaiarasan, Olhager, Agrawal, and Wiktorsson (2022, p. 1)

<sup>121</sup> See Schiele, Horn, and Vos (2011, p. 330)

<sup>122</sup> See M. Kotabe and J. Murray (1990, p. 384)

Moreover, the antecedents of this framework were developed using a combination of predictions and a literature review based on the DCT. This theoretical foundation allows a deeper understanding of how and what are the capabilities of foreign suppliers to sense, seize, and transform in order to overcome the barriers associated with global sales practices, particularly in relation to the CSDDD. Furthermore, through the relationship between global sourcing barriers and global antecedents, we can have a deeper understanding of how foreign suppliers can successfully navigate the complexities of global trade and regulations. The elements in the factor of sensing and seizing were generated based on predictive models, while the transformation phase, including technology and transparency, was evaluated through comprehensive literature reviews (refer to Chapter 2.4.3). These elements were selected to provide a holistic view of how DCT can be utilised to meet the challenges of the CSDDD. Additionally, the use of the predictive model with literature-based evaluations offers a robust framework for analysing and improving global sourcing practices through overcoming the CSDDD barriers.

Furthermore, the research objective of this paper is to investigate how Asian suppliers can respond to the establishment of CSDDD. To achieve this, the ABCDE framework will switch its focus from the buyer's perspective to the supplier's perspective, therefore, the framework will be considered to be "global sales" instead of global sourcing. Nevertheless, the existing literature on global sourcing remains valuable when viewed from the supplier's perspective. By adopting this new perspective, we can better foster data to address the research question using the chosen methodology.

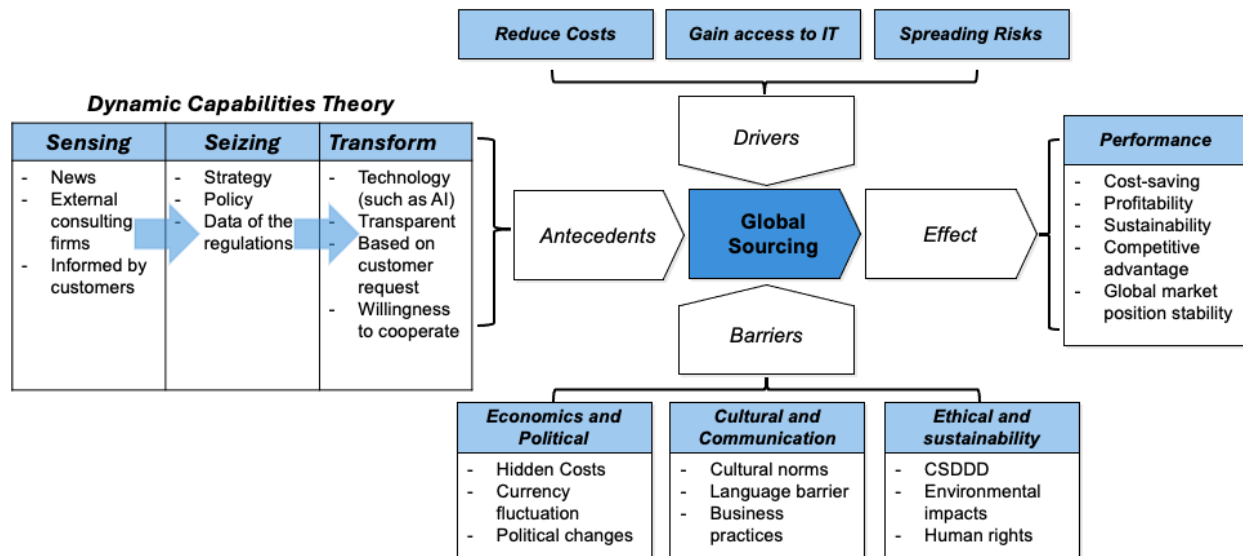


Figure 5: The ABCDE framework of Global Sourcing

### 3 Methodology: Semi-structured expert interviews

#### 3.1 The justification of research method application

The research process in this study will be a reference to the theory-building method developed by Eisenhardt (1989). This method included eight steps – Getting started, Selecting cases, Crafting instruments and protocols, Entering the field, Analysing data, Shaping hypotheses, Enfolding literature, and Reaching closure.<sup>123</sup>

The four steps focus on creating the background of the study, firstly identifying the research questions for the study, in this case, the research question is “How will recent environmental developments such as the Corporate Sustainability Due Diligence Directive (CSDDD) influence the evolution and interplay of global sourcing practices between EU buyers and Asian suppliers?” Secondly, selecting cases by creating a conceptual framework based on the existing literature such as the ABCDE framework discussed. Followed by making a decision of what research method will be used in the study. In this study, the qualitative research method was chosen to examine the research questions. The use of qualitative research methods provides valuable descriptions of complex phenomena, tracks unique and unexpected events, illuminates actors’ experiences and interpretations of events with their expert stakes and roles and gives

<sup>123</sup> See Kathleen M Eisenhardt (1989, p. 533)

voice to views that are rarely heard.<sup>124</sup> This method is particularly suitable because of its ability to capture the depth and information of data necessary for understanding multifaced issues such as suppliers' capabilities to sense, seize, and transform to achieve CSDDD regulation. By directly engaging with interviewees through interviews, the researcher is capable of capturing the perspective of participants toward the research question. This approach allows a comprehensive examination of not just what is happening, but why it is happening, and considers the perspectives and motivations of different experts from different industries. As this is an independent thesis, therefore, it was impossible to adopt multiple data collection methods. The step of entering the field becomes necessary where overlap should be considered during the data collection in order to improve analysis. To achieve this, the semi-structured interviews were conducted as they allowed overlap questions not just to improve analysis but also to collect in-depth information.

The other four steps focus on the analysing processes of data collected from interviews. Analysing data through within-case analyse and cross-case pattern allow us to gain with data and theory generation as well as forcing investigators to look beyond initial impressions and see from different perspective through multiple faces. After analysing, it is important to sharpen the hypothesis by adjusting the conceptual framework made referencing from literature and prediction. The next step is to compare the new framework with existing research for conflicts and similarities with the findings which will be written in the discussion chapter. Reaching closure to end the process of this research study with limitation and future research.<sup>125</sup> The detailed information about the instrument used, data analysis method, and process will be discussed in the following chapters.

### **3.2 Data collection method**

In this study, data collection will be carried out through online interviews with Asian suppliers through Microsoft Teams as the primary platform. To achieve the theory-building method of entering the field.<sup>126</sup> The interview will be recorded using the built-in recording system of Microsoft Teams and its automatic transcription feature will be employed to transcribe audio into

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<sup>124</sup> See Sofaer (1999, p. 1101)

<sup>125</sup> See Kathleen M Eisenhardt (1989, pp. 536-545)

<sup>126</sup> See Kathleen M Eisenhardt (1989, p. 538)

text. Additionally, a translation system (DeepL Translate) will be integrated to accommodate interviewees who prefer to answer in Chinese/Mandarin to ensure the clarity and accuracy of their responses. However, due to regional restrictions, some participants were not able to conduct online interviews, therefore, they were asked to answer the questions from the interview guide (see Appendix 1) and send them back through email or message application such as WeChat. To address the ethical considerations, the informed consent form will be distributed once the interview dates are confirmed. This form will obtain the consent of participants to record and use the information provided for further analysis. The interview will be open by re-explaining the confidential information to the interviewees before the start of recordings and transcription<sup>127</sup> to mitigate any potential conflicts. The use of this data collection method can ensure a streamlined and efficient process, utilising technology to facilitate communication across language barriers. To enhance data collection, the development of well-structured interview questions is crucial to gather insightful information aligned with the research aim.

### **3.2.1 The development of interview questions.**

The interview questions in the guide (see Appendix 1) were developed based on the reference to the DCT, which evaluates the company's capability to sense opportunities and threats, seize by reconfiguring resources, and transform business operations to maintain competitive advantage. And the interview questions foster the CSDDD strategically.

The initial questions focus on the sensing phase, where the firm identifies and understands the external changes like the establishment of new regulations. For example, questions such as "How did you hear of this due diligence?" and "How does your company stay informed about new regulations like the CSDDD?" aim to assess its ability to capture and process external information that may impact its operation.

The questions formulated in the seizing phase aim to explore how companies respond to these identified opportunities or threats. Questions like "How will you evaluate the impact of a new regulation like the CSDDD for your company?" and "What is your willingness to collaborate

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<sup>127</sup> See Hove and Anda (2005, p. 4)

with your customer to achieve the objectives of regulations such as the CSDDD?” are foster to understand the action and strategies/policies the firm consider to adapt to these changes.

Moving into the transformation phase, how the company plans to take action to adjust its operations in response to new directions or regulations is addressed. To investigate the firm’s readiness to transform its processes and adopt new technologies, questions like “How will you assess the change in the company’s operations or sourcing practices in response to the CSDDD?” and “Would you take into account technology such as AI supply chain risk management systems to blockchain technology to meet the CSDDD?” were developed.

Moreover, the interview guide also considers the potential barriers and challenges that might hinder this transformation. For example, questions like “Can you give an example of how you as a supplier expert will take action to meet the CSDDD?” and “What additional capabilities or resources do you think are necessary for better collaboration and compliance with the CSDDD?” identify the obstacles the firms may face and the resources they need to overcome them. Finally, questions such as “Do you believe that CSDDD will be effective in achieving its goal (human rights and environmental impact) as a foreign supplier?” help to determine the impact and effectiveness of dynamic capabilities on overall performance. Through this structured approach, the interview guide ensures that it addresses how the interviewee’s company sense, seize, and transforms in response to CSDDD, which aligns with DCT. The selection of the right participants is the key to obtaining meaningful data for these questions. Details on participant selection will be covered in the following section.

### **3.3 Participants selection**

This study interviewed a diverse group of professionals who are likely to be impacted by the upcoming CSDDD directive. The participants included a regional managing director from a global company based in Asia, a vice president overseeing the Nordic region, an export sales manager, and a CEO—all of whom have trading relationships with EU companies. Additionally, a regional category manager responsible for direct procurement from an European company that sources from Asian suppliers was also interviewed. The interviews focused on the Asian companies’ perspective and capabilities businesses have or need to perform global sourcing



practices while overcoming the CSDDD barrier. The interview participants were found through the method of convenience sampling, which is a technique of choosing people who are easy to reach and meet the interview requirements.<sup>128</sup> This method allowed researchers to efficiently gather relevant insights from professionals directly involved in global trading.

**Table 1:** Participant Demographics

	P1	P2	P3	P4	P5
Country of the interview partner	Global	Global	Global	Supply from Asian countries	Germany
Industry	Fitness equipment manufacturer	IT industry	Prototyping manufacturer	Construction industry	Window covering industry
Position	Malaysia managing director	Export sales manger	Vice president of Nordic region	Regional category manager	CEO
Tenure in the company (Years)	20	6	0.6	8	35

### 3.4 Data analysis method used in this study

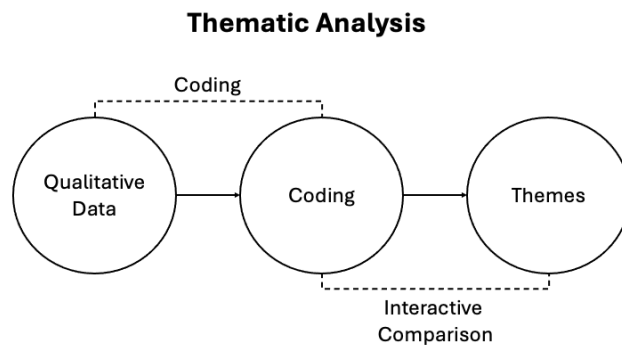
The interview questions used for the semi-structured interview were formulated based on the dynamic capabilities theory (DCT) by focusing on the dimensions of sensing, seizing, and transformation. By referencing this theory, the interview questions will be structured to explore how Asian suppliers identify the CSDDD (sensing), how and what is their capabilities to capture/address the sensed CSDDD (seizing), and what action/antecedents their operations can act on to achieve CSDDD (transformation). This theoretical foundation ensures that the questions are tailored to the framework (see Figure 5) made in Chapter 2.5 which can better facilitate a comprehensive understanding of the supplier's capabilities and attitude towards the CSDDD directives. Moreover, in order to better analyse the collected data, the coding process is crucial. Using qualitative coding will allow the researcher to interpret, organise, and structure the transcribed data and interpretations into meaningful theories.<sup>129</sup> It also provides reflexive, critical, and rigorous findings. Inductive coding will be used in this study, where codes were

<sup>128</sup> See Ilker, Sulaiman Abubakar, and Rukayya Sunusi (2015, p. 2)

<sup>129</sup> See Basit (2003, p. 143)

derived without any reference to literature to guide the categorisation of responses. Then these codes were grouped to the theme generated with reference to the DCT dimension of sensing, seizing, and transformation. By aligning the coding process with the dimension used, the analysing process can systematically uncover patterns and insights related to the main aim of this research. Nevertheless, additional codes may emerge during the coding process if interesting or significant data arise for further exploration.

Additionally, the thematic analysis will be used to complete the data analysis process. The thematic analysis method is beyond counting explicit words and phrases, instead focusing on identifying and describing both explicit and implicit ideas within the data collected, called themes.<sup>130</sup> The developed codes were to represent the themes and are then applied or linked to the raw data as a summary marker for future analysis. This process includes activities such as comparing the code frequencies, identifying co-occurrences of codes, and visualising the relationships between codes within the dataset.<sup>131</sup> By using this method, researchers are able to engage deeply with their data through the thematic analysis structured yet flexible framework while adapting their approach to suit the specific demands of the study and research questions.<sup>132</sup> As a result of this flexible approach, researchers can capture and address unexpected but important aspects of the data, enriching the overall analysis and leading to a more comprehensive understanding of the findings as a whole.



**Figure 6:** Thematic Analysis reference to Rosala, M. (2024, January 19). How to Analyze Qualitative Data from UX Research: Thematic Analysis. Nielsen Norman Group. <https://www.nngroup.com/articles/thematic-analysis/>

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<sup>130</sup> See Braun and Clarke (2006, p. 6)

<sup>131</sup> See Guest, MacQueen, and Namey (2012, p. 9)

<sup>132</sup> See Braun and Clarke (2006, p. 28)

#### **4. Data analysis result of the ABCDE framework of global sales based on suppliers' perspective**

This section presents the findings from a thematic analysis of interviews conducted with Asian companies and a European buyer sourcing from Asia. The findings are summarised in the following cross-case comparison table (see Table 2) and further evaluated in the different subsection of result. The purpose of these interviews was to identify the activities and capabilities these companies currently have or need to perform and enable global sourcing practices under the influence of CSDDD. The analysis uncovered several key themes related to the anticipated supplier capabilities and the impact of the CSDDD on buyer-supplier relationships.

**Table 2: Cross-case Comparison Table**

	P1	P2	P3	P4	P5
Knowledge of CSDDD	Limited	No	No	Limited	No
Receiving information	Consultancy firms	Customer information	Customer information	None	Customer information
CSDDD application approaches	Proactive approach	Reactive approach	Reactive approach	Proactive approach	Reactive approach
CSDDD impact buyer-supplier relationship	Yes	No	Yes	Yes	Mediate
Experience with EU regulations	Yes	No	Yes	Yes	Yes
Collaboration willingness	High	Low	High, under circumstances	High	High, under circumstances
Technology application willingness	Yes	No	Yes	Yes	Mediate
Additional resource for integrating CSDDD	No	No	Education and training	Technology systems	Contractor companies
Achievement of CSDDD in Asia	Difficult due to different working culture	Yes	Difficult, people lack of awareness	Yes	Yes, but only on paper not practically

#### 4.1 Theme 1 – Sensing

The theme Sensing from DCT can help to understand the company's capabilities to identify and assess new trading regulations such as CSDDD. This theme explores the Asian suppliers' ability to gather and assess external signals like clauses and regulations established by the EU Commission that may impact their trading relationship with EU companies.

Three out of five interviewees mentioned that they receive information about new regulations or compliance requirements through their customers. One interviewee specifically noted that they hold regular meetings and conduct visits with their EU customers. To start and maintain business relationships, Asian suppliers need to meet the compliance requests raised by their customers. On the other hand, third-party consultancy firms play a crucial role in keeping companies informed about new regulations. P1 mentioned that they collaborate with these firms to stay updated on all relevant regulations including CSDDD. This collaboration helps companies to prepare in advance for new compliance requirements once they enter the market. However, four out of five participants were not yet familiar with the CSDDD established by the EU Commission. While some had a basic understanding but had not fully grasped the implications and requirements of this due diligence directive.

Example quotations of interviews on how firms sense new regulations:

- *“The customer notification, we want to sell something to them to Germany, France, they all say you must go to apply for that BSCI licence.” (P5)*
- *“We regularly visit our customers like go to Europe and visit them and sometimes we have meeting with them.” (P3)*
- *“We have consent consultant doing this kind of work.” (P1)*

The finding highlighted that interviewees rely heavily on information from their customers to stay informed about new regulations and compliance requirements, particularly through regular interactions with EU customers. This happens mostly to smaller-sized Asian companies. A global fitness manufacturer notably relies on third-party consultancy firms for detailed guidance on regulatory compliance such as CSDDD. EU customers play an essential role in keeping companies updated on regulations like CSDDD. However, despite these efforts, there is a clear gap in awareness and understanding of the CSDDD among many interviewees. It is clear that CSDDD is too new for Asian suppliers to fully comprehend the directive's implications and

requirements. This resulted from the need for further preparation to fully understand CSDDD before taking any steps further.

## **4.2 Theme 2 – Seizing**

After sensing the market changes such as the establishment of CSDDD, companies must act effectively to maintain and enhance their competitiveness in the market. This process, known as seizing, reflects the firm's ability to capture new opportunities and threats in the market. It allows us to evaluate the firm's capability to respond and adapt to market changes and navigate uncertainties to remain competitive in the industry.

### **4.2.1 Sub-theme 1: Consideration and Capability of Implementation**

Within the border theme of seizing, the sub-theme of consideration and capability of implementation highlights the Asian company's capability to respond and adapt to the market change as well as the actions they will consider taking

The interviewee of the global fitness manufacturer mentioned that their company closely collaborate with both their law department and an external consultancy firm to stay updated on new relevant regulations. They ensure that these updates will be passed around the entire organisation. Internally, they form a dedicated team tasked with integrating the relevant regulatory requirements into their system. As described by P1 in detail as *“We will have a team that will form a group to lead the way [...]the main task of this team is to integrate the relevant requirements into our system [...] we need to have a team to deal with the upstream, midstream and downstream to comply with the norms, it's a longer term issue, it's not going to be a short term exercise.”* (P1). This team not only develops new strategies and policies to align with the directives like CSDDD but also informs their suppliers about these due diligence requirements. The impact of this regulation act extends beyond the product itself but affects the entire supply chain, including product packaging, packaging materials, and production materials.

In contrast, other companies take a different approach. Participant 3 mentioned that, rather than forming a team for this directive, they will assign the responsibility of monitoring to a single employee. P3 mentioned this as *“We have one colleague he's working on.”* (P3). This decision is influenced by their current lack of knowledge of full understanding of CSDDD requirements and

compliance measures. Four participants from smaller-sized company expressed similar sentiments, preferring to take a wait-and-see approach. They indicated that they would only take action when strongly urged by their EU customers.

Example of these activities are:

- *“We will do nothing. Or we react only when EU customers strongly ask us to take measures.”* (P5)
- *“If this is not that urgent, the boss will not plan in advance.”* (P2)

Participant 5 also mentioned a preference for consulting with external contractor firms capable of managing compliance measures with such regulations, much like how companies handle the BSCI certification. P5 highlighted as *“We will first ask and enquire if there is any company that undertakes this kind of clause, because if the Government has made it a mandatory requirement, there must be someone who will undertake it [...]they will help you deal with it.”* (P5). They would prefer to rely on specialized contractors who can fully address the requirements of regulations like CSDD, allowing them to simply prepare necessary documents and pay the associated fees, especially if CSDD become mandatory for trading with EU customers. This approach will be considered based on previous experience with EU regulations application which will be further elaborated in the next section.

#### **4.2.2 Sub-theme 2: Experiences with EU regulations**

This sub-theme, experiences with EU regulation, highlights Asian companies’ past interactions with EU regulatory frameworks. By examining how these companies have responded to and complied with previous regulations, we can gain valuable insights into their strategies and actions. These experiences can offer a broader perspective on potential approaches and considerations for implementing the CSDD in the future.

Larger companies highlighted their familiarity and experience with handling EU regulatory developments, indicating a level of preparedness and adaptability. Where P1 confidently expressed that *“This kind of situation of EU regulation development we are often to deal so we are experienced.”* (P1). Conversely, other participants from smaller-sized companies expressed a lack of investment in compliance-related activities and suggested limited prioritisation or

resources allocated for such measures. An example was shared where there is an EU regulation that required changes to the length of treadmill handles, prompting adjustments in product design and modifications in suppliers to meet the new standard. P2 addressed that *“What we have done is already installed an RTO system, which is a heat recycle system & this reduce air pollution & save energy[...].reason that we installed this RTO system is to follow local government’s regulation only.”* (P2), where the implementation of Regenerative Thermal Oxidizer (RTO) system is based on local government requests and it is aimed at reducing air pollution and conserving energy which build up their experience with sustainable laws and regulations.

Moreover, the BSCI license and CSR initiatives were mentioned during the interview, along with the REACH regulation. Participant 3 and participant 5 noted that their EU customers requested them to obtain the BSCI license as a mandatory certification for importing goods from Asia to the EU. With these experiences, during the interview, the companies show a positive attitude toward collaborating with their customers on the new directive CSDDD. Given that CSR practices have long been a part of the market, an EU buyer indicated that they are well-versed in sustainability rules and regulations. They noted that these requirements would not pose a significant challenge or impact their relationships with suppliers, as they hold the power of making decisions in business partnerships. Therefore, their Asian customers are more than willing to collaborate with them.

Example of firm’s experience with EU certification (BSCI license) application:

- *“They ask us to apply for this BSCI.”* (P5)
- *“BSCI licence is for manufacturers employee welfare, paying attentions on all aspects, which is mandatory for trading.”* (P3)

The results show that Asian companies differ in their engagement and compliance strategies, ranging from proactive adaptation to a reactive approach of minimal investments, largely influenced by customer demands and company capabilities.

### **4.3 Theme 3 – Transforming**

The last dimension of DCT is transforming. This step refers to the ability of a firm to configure and restructure the organisational processes to align with market changes or newly established



regulations. It emphasized the firm's capability for learning, innovation, and the ability to pivot or modify business models and operations in response to environmental changes. Through transforming, we will be able to understand the company's resilience and adaptability ensuring that they can meet new challenges and leverage new regulations like CSDDD.

#### **4.3.1 Sub-theme 1: Application willingness**

In this section on application willingness, we will explore the Asian supplier's willingness to apply CSDDD into their company and the willingness to cooperate with their clients to adopt CSDDD. This reveals varies based on the levels of readiness and commitment among companies, differentiating based on regions.

Based on the interview data, there is a general acknowledgement that meeting regulation requirements can be challenging, especially if they exceed current capabilities. Participant 5 expressed that prepared compliance on paper is doable in Asia, but it will be impossible to execute these measures in practice due to cultural differences between Asia and the EU. Quoting of *"Then we may not have the capability to meet many of the requirements. There is no way, but you must have it on paper. We can prepare all the information for you on paper, but it is really difficult for us to actually execute it [...]it can appear to be the same, but in reality it can't be."* (P5). As a result, fully implementing CSDDD appear to be impractical at the moment, although documentation can be provided. Therefore, the approach towards compliance is notably influenced by whether the regulations are mandatory or will it impact customer orders directly.

Moreover, participant 4, based on their experience suppliers from different regions show different attitudes towards these regulations, especially those sustainable ones. They provided an example, suppliers in China are perceived as more mature and better equipped to accommodate regulatory demands, whereas suppliers from India and Vietnam face more significant challenges due to lower levels of awareness and less mature working conditions. The country Malaysia seems compliant which is similar to China but still not as advanced as China in terms of regulatory maturity. Participant 4 also mentioned that their company has implemented a financial check system which is used to assess supplier's financial situation before entering partnerships.

Initially, the system was not widely used, after a clear introduction of its purpose the usage rate has significantly increased.

- *“China, I would say 90% will accommodate because the manufacturer there are more mature [...] but if you go to India, I would say they are awareness and their acceptance is still in quite medium low level [...] Malaysia is OK, similar to China, but Vietnam maybe a little bit better than India, but also it's like the working conditions are not that mature like China.” (P4)*
- *“I think when we initiate the tools, the participation rate was like 5 to 10%, but after one year uh working on it, communication with suppliers tell them this is important and this will help them to get more business from us [...] I think the number we got was that like 21% or something like that.” (P4)*

There is a clear divide in the willingness to adopt new regulations voluntarily and respond to mandatory requirements. P3 indicated that *“I think we will be volunteered doing this and then yes, we want to be the first company to adapt this kind of regulation in our company.” (P3)*, showing a proactive desire to be the early adopters of new regulations, seeing this as an opportunity to lead in compliance and stabilise their customer orientation reputation. In contrast, other suppliers indicate a more passive stance, willing to comply when regulations become mandatory or when it directly affects their capability to secure customer partnerships. Overall, the findings suggested a mixed approach, mainly based on the company's capability. The varying degrees of enthusiasm and commitment to implement CSDDD measures are based on the nature of requirements and their impact on business operations.

#### **4.3.2 Sub-theme 2: Implementation of actions**

The implementation of actions as a sub-theme of transforming will explore how companies can effectively comply with new regulations such as CSDDD. This involves developing strategies and policies to integrate these regulations into business operations. The effects on profit, costs, and order size concerns were important factors in decision-making, therefore, it will be discussed in this chapter.

All the smaller-sized suppliers (P2, 3, 5) make implementation decisions regarding client requests that involve a careful assessment of costs and potential returns. P2 expressed that *“No, we will not voluntarily adopt this due diligence [...] this cost extra money.”* (P2). When their customers inquire about specific certifications, the company will first consider whether the application fee for the certificate is manageable. If the cost is acceptable, they are more likely to proceed. They may, however, only pursue certification if the investment is justified by the potential business benefit. One of the key factors influencing this decision is the volume of orders from clients. For customers placing large orders, the company is more than willing to invest in such certifications, as the potential profits are likely to outweigh the costs. In contrast, for customers with smaller order volumes, the financial burden of certification may not be justifiable, resulting in the possibility of forgoing the certification and trading relationship. Quoting P5 *“Whether or not to deal with it, we have to consider the size of the customer's order [...] If the customer buys a lot of containers a month, we are willing to invest a little more money to do these things that should be implemented. If the customer buys a small amount, and then it costs a lot of money to fight for this clause and to be able to approve it, then we may just give up and we don't do it.”* (P5). Therefore, the choice to pursue or not pursue certification is based on an assessment of potential profitability which is what smaller-sized firms will consider for the CSDDD implementation. Larger companies like the global fitness manufacturer, view these types of regulations as a strategic decision rather than merely a compliance requirement. They will develop policies to integrate into company operations to support themselves in achieving new regulations like CSDDD. *“This kind of regulation of a norm then it will be in your company's policy inside have to do to adjust to comply with this regulation, so he should not be a plan he should be a strategy or a policy.”* (P1)

Additionally, participant 3 highlighted *“More communication to suppliers.”* (P3) is important with suppliers, recognising that the collaboration and negotiation between buyer-supplier is essential when implementing new regulations and certifications, especially those non-local regulations and certificates. This approach allows all stakeholders to be aligned and that the decision-making process is well-considered.

This chapter gives us an overview of different views between large and small-sized companies when it comes to decision-making processes. Smaller companies will first consider the cost and the potential profitability, however, large companies see this as a benefit that brings their company to the next level. Communication is a crucial factor, in making sure stakeholders are aligned to make well-considered decisions.

### **4.3.3 Sub-theme 3: Antecedent**

As part of the transforming theme, the antecedent plays an important role in overcoming the CSDDD as a global sales barrier. This chapter will reveal interviewees' mixed understanding and readiness regarding the integration of advanced tools such as AI into compliance with regulations like CSDDD.

According to the collected data, interviewees expressed that there is uncertainty about the availability and implementation of specific tools for CSDDD, due to it being a newly established regulation there are no existing examples or integration solutions at the moment.

Interviewee reaction towards the availability and implementations of CSDDD tools:

- *“I didn't really know whether there's already a tool for CSDDD.”* (P2)
- *“I'm not sure whether they have this kind of uh samples before.”* (P3)
- *“But at present we do not see AI it integrated into this CSDDD example, at present I do not see this example.”* (P1)

Despite the current situation of no technology/AI tools that firms can integrate into the compliance frameworks, however, the potential benefits were recognised. Four out of five participants believe that if AI can substantially improve efficiency and its costs are acceptable, it would be advantageous to adopt these technologies into the business. The integration of AI into the organisation is seen as a trend that cannot be ignored, and it is anticipated that AI could enhance efficiency in managing CSDDD requirements if the algorithm is well developed.

Examples of suppliers' perspective towards AI application:

- *“AI we wants to use. If it can help us substantially and the cost is acceptable to us, I believe we are all happy to make this change because this is a trend and you can't change it.”* (P1)

- *“Digitalization tool is and not yet so mature like AI. But yes, helping us to improve the efficiency.” (P4)*
- *“I believe that if in this CSDDD its rules, regulations, all under the condition of the situation that you use the AI mode to do management, for us to say that we will definitely be more efficient.” (P5)*

However, the readiness for such technological advancement varies. Participant 3 highlights that instead of developing a new technology why not advance software particularly within the context of Industry 4.0, to achieve the compliance goals as Industry 4.0 has been widely integrated into businesses. P3 mentioned that *“It shouldn't be like another software or innovations should be added into the industrial 4.0 then it can it.” (P3)*. They further elaborate that digitalisation tools can improve efficiency and AI is viewed as more impactful but still not fully mature in this context.

Furthermore, instead of technology implication, participant 3 also mentioned that training and education can be the antecedents for Asian companies to consider before fully implementing this directive into the organisation. According to participant 3, rather than relying solely on new software, training and educating employees about the need for these regulations and compliance is essential. P3 highlighted the importance of training and education by *“Training or the explain about this kind of regulations [...]educations or trainings will be helpful [...]change people's mind by education or by training, not by a software developed by someone..” (P3)*. This approach creates boarder awareness of employees towards human rights and environmental impacts.

Overall, the finding suggested the readiness to explore advanced tools like AI to support businesses in achieving CSDDD goals. These technological advancements provided substantial benefits and cost-effective for integration. However, there is also a recognition that significant development and education are necessary in Asia to effectively integrate this directive.

#### 4.4. Theme 4 – Supplier opinion

The theme of supplier opinion is considered in this research because this can help us to understand Asian suppliers' attitudes and opinions of the application of CSDDD in Asia companies. This chapter will explore the supplier's perspective of CSDDD, their concerns, and the impact that may occur on affecting the buyer-supplier relationship.

The data collected suggests a perceived discrepancy in regulatory compliance between Western and Asian countries based on the statements provided by the interviewees. It suggested that Europeans and Americans are generally more likely to adhere to this type of regulation, while in Asian countries, there might be a practice of only complying superficially. There is a saying that captures this phenomenon, "Those above have policies while those below have their countermeasures," indicating that policies will be formally acknowledged in the company but actual practices may diverge. Therefore, the participant highlights the importance of documentation that ensures thorough paperwork even though it is not fully aligned with practical implementation. The participant provided an example, China companies and factories are requested to provide employee insurance for all their employee, this is the most basic provision, but it does not 100% comply with the Chinese factories. With this situation, the Chinese factory will only insure 20-30 senior executives within the 100 employees the factory has. This example allowed us to understand the meaning of "Those above have policies while those below have their countermeasures."

The quotation of P5 towards the application of CSDDD in Asian companies:

- *"In Europe and America yes. But I don't think so in Asia [...] European and American people are more likely to comply with the terms and conditions of the regulations. Then Asians, if you are an Asian, you will often hear that "Those above have policies while those below have their own countermeasure", and I will try to cope with whatever you want, and that is actually not possible."* (P5)
- *"On paper you must do it, if you have to do on paper, but in practice no one knows whether you did it or not, then this must depend on your paper work, so the paper work must be done very well, in practice there is no implementation is very difficult to say [...]it will be done very well on paper. There may be problems with the execution."* (P5)

Moreover, one of the interviewees expressed that, global progress is being made towards better regulation adherence and CSR, although this journey differs from one region to another. For example, China is seen as making significant improvements, while other countries like India and Southeast Asia may still face a longer path. The decision of implementation also touches on the challenges and costs associated with CSDDD, especially concerning human rights and environmental standards, and the potential impact on supply chains and buyer-supplier relationships. Overall, the complexity and costs involved in achieving CSDDD across different regions and industries are acknowledged.

#### **4.5 Theme 5 – Result of CSDDD/Global sourcing**

In this section, the theme result of CSDDD and global sourcing will be discussed. It will mainly be focused on the benefits and drawbacks raised by the interviewees and it is based on an Asian supplier's point of view.

The implementation of the CSDDD offers several potential benefits for companies. One significant advantage mentioned by the interviewees was the opportunity to gain a competitive position in the European market based on the indication of P5 *“Give us a competitive advantages on business with European partners.”* (P5). By being the first company to comply with these regulations, business can position itself as a responsible and attractive partner for European customers, who value ethical and sustainable practices improvement. P3 expressed this as *“Maybe we want to be the first batch of company to achieve and it will give us this advantages in European market.”* (P3). Furthermore, the application of CSDDD demonstrates a commitment to human rights and social responsibility, which resonates with broader societal expectations through the expression of *“It's a good push for our company because CSDD is more concerned about human rights than other safety and environmental issues.”* (P1). This proactive approach can enhance the company's trustworthiness and reputation, marking them as a leader in the industry.

On the other hand, there are also notable drawbacks raised by the interviewees. One concern is the economic and cultural differences between the EU and Asia, particularly regarding work culture and labour practices. There is a possibility that the strict rules of CSDDD might not fully

reflect the realities of some Asian countries, where longer working hours and overtime are often crucial for workers' livelihoods. Participant 1 highlighted that the ban on overtime work could reduce income for workers who rely on it, potentially pushing them to seek an additional job to replace the loss the workers experienced. P1 mentioned this as *“Other part is that in fact Asia has its culture/work culture that you insist on using the European standard to look at this piece then in fact there are some people who will be sacrificed.”* (P1). This could result in a complex socio-economic dilemma, where the directive's intention to protect worker's rights might inadvertently cause financial strain for those who rely on overtime pay. Moreover, the application of CSDDD could increase business operational costs without necessarily boosting sales, as it requires significant investment in compliance and monitoring. This cost burden may not be offset by immediate financial gains, posing a challenge to businesses trying to manage ethical behaviour and profitability. P2 expressed this as *“Cost increasing only & will not get more sales.”* (P2)

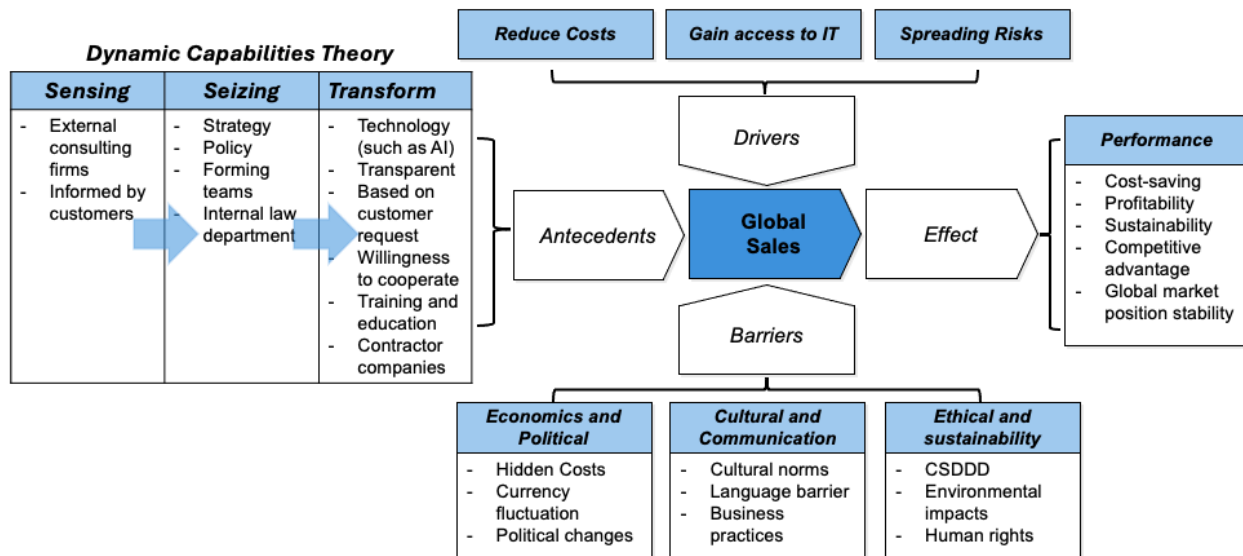


Figure 7: The ABCDE framework of Global Sales based on suppliers' perspective

## 5. Considering the ABCDE of global sales to evaluate the evolution of global sourcing practices

### 5.1 Discussion of the research framework (ABCDE model)

In this study, the DCT framework has been utilised to formulate the ABCDE model to analyse how recent environmental developments such as CSDDD influence the evolution and interplay of global sourcing practices between EU buyers and Asian suppliers. The component sensing,



seizing, and transforming of the framework guided the thematic analysis and allowed us to further explore the strategies and capabilities these firms employ.

The sensing component, referring to Table 1, the predicted sensing methods for information gathering about new regulations include news, through external consultancy firms, and customer-provided information. Based on the findings revealed in Chapter 4, many Asian suppliers heavily rely on customer-driven information to stay informed/updated about new regulations established in the EU. This reliance is especially addressed by smaller-sized firms, who also rely on meeting with and visiting their EU customers for updates. In contrast, larger firms, like a global fitness manufacturer, tend to be more proactively in collaborating with external consultancy firms and utilising their internal law departments to anticipate and prepare for regulatory changes that may occur in future. Interestingly, none of the participants indicated that they received new regulatory information through the news sources. According to Tian (2022), an overload of social media news can influence the need for news of social media users. This relationship suggests that when individuals are exposed to a large amount of news on social media will affect their behaviour and desire for news.<sup>133</sup> This concept is further supported by the research of De Hoog and Verboon (2019), who discovered that excessive news exposure along with individual's emotional state can influence their news-seeking behaviour.<sup>134</sup> Therefore, we can argue that overloaded news can lead to negative behaviour and a diminished desire for news among individuals can be a reason why receiving new information from news does not apply to this study. However, it does not imply that accessing new information through news is ineffective or inefficient, rather it is simply not relevant in this study.

Under the seizing component, the prediction of the firm capturing opportunities and threats in the market is through the development of new business strategies and policies or the data information of the regulation, in this case, the CSDDD. Through the data analysis, a significant divergence in responses was observed. Larger-sized firms have the capability and resources to form a dedicated compliance team to integrate the new regulation requirements into their supply chains as well as creating long-term business strategies. However, smaller firms tend to adopt a

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<sup>133</sup> See Tian (2022, p. 11)

<sup>134</sup> See de Hoog and Verboon (2020, p. 168)

more cautious, reactive approach using the wait-and-see strategy before taking any action and find it unnecessary to form a team within the company to monitor the due diligence as they do not have enough information about CSDDD to conduct further actions. Moreover, all participants have experience with EU regulations such as the BSCI license, which is a mandatory request by their EU customer to export goods from Asia to Europe. Some firms believe that if this directive is made mandatory, there will be a contractor company available to manage compliance on their behalf, providing relief concerns about the due diligence process. Additionally, interviewees addressed that cost and profitability are crucial factors influencing their decision to capture and act on new regulations. Data analysis may not be applicable in this study due to the limited information regarding CSDDD. The insufficient data could hinder firms from effectively analyse the processes, making it difficult to accurately capture the opportunities and threats in the changing environment. This can be supported by the research of Brown and Kros (2003), who highlighted that insufficient data can lead to inaccurate data mining which results in an inaccurate conclusion.<sup>135</sup> However, once CSDDD is fully established, data analysis could become a more effective tool for seizing changes as the availability of data becomes mature which enables more accurate and reliable analysis.

In the transforming component, the element of technology and transparency was examined through a comprehensive literature review from Bank (2024) and Posner (2024).<sup>136</sup> This evaluation highlighted varying degrees of adaptability and willingness to implement the CSDDD into the company. Some firms see this directive as an opportunity to lead in compliance and strengthen their position in the market, whereas others view it as a challenging requirement, especially due to cultural and economic differences. The readiness to integrate advanced tools like AI for compliance also varies, with some companies recognising it as a potential benefit but expressing concerns about the costs and implementation feasibility. Instead, advancing the Industry 4.0 system that companies have already in use will be more efficient compared to adopting a newly developed system/software as training is needed. Furthermore, one of the participants addressed an alternative approach involving external contractors, different from consultancy firms, these contractors provide services in managing the entire compliance process

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<sup>135</sup> See Brown and Kros (2003, p. 374)

<sup>136</sup> See Banker (2024); Posner (2024)

on behalf of the company. Another important aspect that emerged is the need to create awareness among Asian employees by providing training and education emphasizing the significance of human rights and environmental impacts. This approach can cultivate a deeper understanding and commitment to these issues within the workforce.

To conclude, most of the predicted elements in each component ABCDE model were validated by the interview data. While some elements such as sensing from news, were not applicable. In addition, the elements for seizing and transforming were incorporated to better complete the model (see Figure 7).

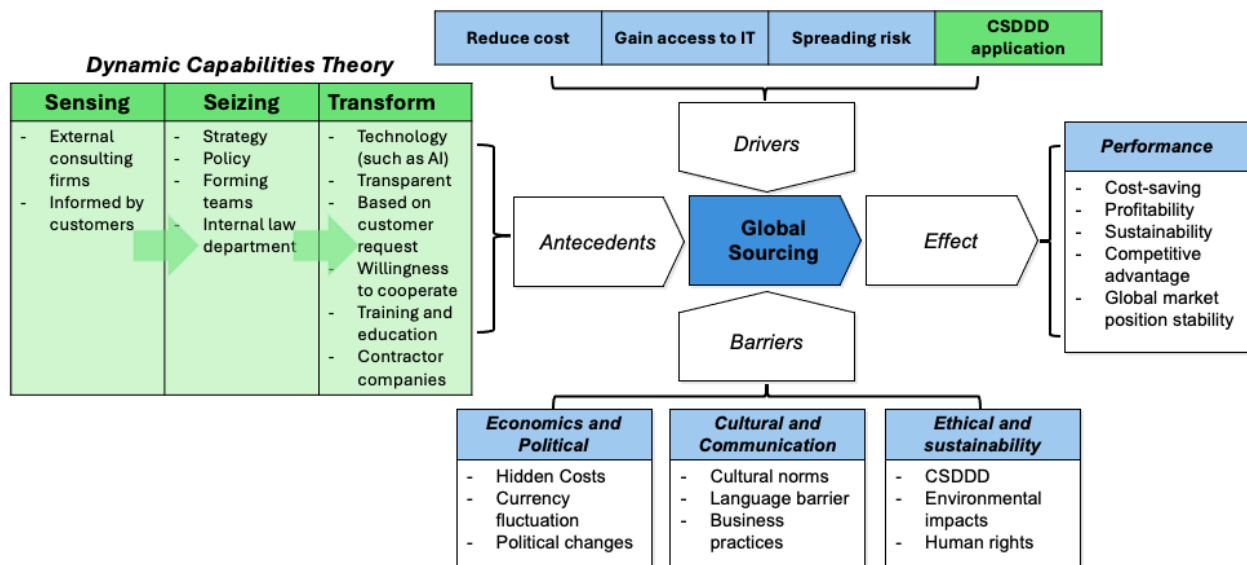


Figure 8: The ABCDE framework of Global Sourcing - Updated version

## 5.2 Theoretical Implication

According to the literature review, the advantage of the CSDDD was predicted based on similarities to CSR regulations, with maintaining and improving company reputation being a key benefit.<sup>137</sup> Based on the interviewees, they believe that the implementation of CSDDD will improve their company reputation and their competitiveness in the market. One of the interviewees expressed that by being among the first in Asia to integrate this directive, they expect to become more attractive to EU customers as CSDDD is made mandatory by the EU Commission. On the other hand, ensuring ethical sourcing throughout the entire supply chain is a

<sup>137</sup> See Peloza and Shang (2011, p. 129); Schaltegger and Burritt (2005, p. 56); Schwaiger (2004, p. 36)

primary challenge of CSDDD.<sup>138</sup> However, none of the interviewees view this as an issue. They are confident with their ability and capability to comply with new regulations, given their experience with EU regulations and their routine practices. Additionally, some participants expressed confidence that if CSDDD becomes mandatory, contractor companies would be available to handle compliance on their behalf.

The establishment of CSDDD is changing the global sourcing environment by making the trading relationship more complex which is a new perspective found based on the result from data analysis. Other literature like Köerber and Schiele (2022) who indicated that the Covid-19 pandemic has reshaped the global sourcing environment<sup>139</sup> as well as the classical elements of low labour and production cost mentioned by Holweg et al. (2011) still holds its position in changing global sourcing practices in today's market.<sup>140</sup> In addition, it is found that the use of the dynamic capabilities theory developed by Teece et al. (1997) can effectively describe how the antecedents – sensing, seizing, and transformation lead firms to continuously source from foreign countries. Based on this framework, we can better understand firm's capability on how they will react and integrate the directive.

Moreover, the use of technology such as AI tool is seen as a valuable antecedent to help firms overcome the CSDDD regulations<sup>141</sup> as a global sourcing barrier. All interviewees agreed that the implementation of technology tools would assist in achieving CSDDD goals, as AI is already a significant trend in today's world. However, at the moment there is no specific technology available for this purpose nor any prior cases of firms using AI to address CSDDD. On the other hand, one interviewee suggested integrating CSDDD into existing Industry 4.0 software. Industry 4.0 is an integration of manufacturing operation systems, information, and communication technology particularly the IoT.<sup>142</sup> Integrating CSDDD into Industry 4.0 software can enhance effectiveness and efficiency by utilising manufacturing operation systems'

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<sup>138</sup> See Banker (2024)

<sup>139</sup> See Koerber and Schiele (2022, p. 219)

<sup>140</sup> See Holweg et al. (2011, p. 335)

<sup>141</sup> See Banker (2024)

<sup>142</sup> See Dalenogare, Benitez, Ayala, and Frank (2018, p. 383)

data to develop reports, reducing the workload for companies and potentially increasing their willingness to collaborate with their customers.

## **5.2.1 Research questions**

### **5.2.1.1 How advantages and disadvantages of global sourcing are changing today?**

Global sourcing has long been a strategy for cost reduction and access to diverse markets.<sup>143</sup>

However, today, the advantages and disadvantages of global sourcing are evolving due to environmental developments like the CSDDD. There is now a risk of the traditional cost savings advantage being offset by the compliance costs and complexity. Asian suppliers now need to focus not only on price but also on meeting the sustainability standards required by their potential customers. The implementation of the CSDDD could become a key driver for EU customer sources globally. Participant 4 emphasized that they hold the decision-making power in partnerships which they will prioritize suppliers who meet the required standards over those who do not. As a result, Asian suppliers who adopt CSDDD will become more attractive to EU buyers, especially once the EU Commission makes CSDDD mandatory becoming a driver of global sourcing (see Figure 8).

On the other hand, the disadvantages of global sourcing have grown. The studies of Cannon et al. (2010); Humphreys et al. (2003); and Lohmann (2011), reviewed that cultural differences cause multiple issues in global sourcing.<sup>144</sup> Interviewees pointed out that the CSDDD overlooked cultural norms between the EU and foreign countries like Asia. In countries such as India and Vietnam, a lack of understanding of sustainability and human rights regulations, therefore, significant training is needed. Moreover, economic standards in Asia may lead workers to seek extra jobs to offset lost overtime, potentially conflicting with the human rights goals of CSDDD.

### **5.2.1.2 How Corporate Sustainability Due Diligence will influence the relationship between Asian suppliers and European buyers?**

The implementation of the CSDDD is expected to significantly impact buyer-supplier relationships between Asia and the EU. However, the influencing factor remains unclear due to the directive's recent introduction. Interviewees suggested that, based on their expert experience,

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<sup>143</sup> See Ferruzzi et al. (2011, p. 51); Kremic et al. (2006, p. 469); Marvin (2011, p. 14)

<sup>144</sup> See Cannon et al. (2010, p. 506); Humphreys et al. (2003, p. 240); Lohmann (2011, p. 159)

operational costs are likely to rise in the short term, causing an increase in selling price and potentially exacerbating inflation in an already struggling economy. Klochkov et al. (2016) emphasized that certifications will increase the production costs<sup>145</sup> resulting in a potential increase in selling price which supported the statement claim by the interviewees. Despite these challenges, CSDDD presents an opportunity for the supplier to strengthen their relationships with the EU buyers through the alignment of newly introduced regulations. This could help to secure their long-term relationship and enhance market reputation. According to the Asian suppliers, they are more than willing to collaborate with customers who requested specific licenses or regulatory compliance. They emphasized the importance of the EU market to their business, they will do their best to meet all necessary requirements to maintain these partnerships. However, if fulfilling these requests goes beyond their capabilities or if profitability assessments are unfavourable, they will choose to forgo the opportunity.

### **5.2.1.3 What are the antecedents to ensure trade relationship between Asian suppliers and European buyers?**

To establish and maintain the trade relationships between Asian suppliers and EU buyers, particularly in the context of evolving regulatory demands like CSDDD, several antecedents are crucial. Based on the ABCDE framework, the antecedent is divided into three parts sensing, seizing, and transform.

Firstly, in the sensing phase, it is clear that based on the data there is a need for enhancing compliance awareness and preparation, particularly among the smaller-sized firms such as participants 2, 3, and 5. These businesses rely solely on customer-driven information which may not be sufficient. To address this, companies can consider investing in proactive measures such as consultancy firms. Moving to the seizing phase, larger firms are more likely to form dedicated teams and work closely with their law departments and consultants to plan for further action. However, smaller-sized firms choose to adopt a wait-and-see approach or outsource this type of compliance task to external contractors as they do not have the ability to adopt or reference what large firms are doing.

Lastly, in the transforming phase, leveraging technology and innovation brings a significantly streamlined compliance process. However, interviewees emphasized that there is a need to

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<sup>145</sup> See Klochkov, Odinokov, Klochkova, Ostapenko, and Volgina (2016, p. 120)

investigate and test these solutions to ensure they are effective and suitable for their specific needs as well as the firm's ability to integrate such tools into their company. This is why the cost-benefit analysis is essential for the justification of compliance investment. Interestingly, besides technology, changing mindsets and raising awareness about sustainability are also critical, especially due to cultural differences. Participants noted that providing education and training to enhance employees' understanding is often more effective than merely implementing new tools. Furthermore, if the CSDDD becomes mandatory there will be contractor firms who will handle this directive on behalf of the firm to meet the qualification required by their EU customer.

#### **5.2.1.4 How can suppliers and buyers support each other to work towards the CSDDD in the European Union?**

To successfully navigate the requirements of the CSDDD, a collaborative approach between suppliers and buyers, leveraging their strengths and resources is expected. However, the research findings reveal that this ideal scenario is not being proven. Based on the data from participants 2, 3, and 5, small firms trying to meet EU client demands, reported that suppliers tend to bear the burden of compliance disproportionately. These small firms are highly motivated to fulfil the requirements like the adoption of CSDDD, as their primary goal is to secure business and generate revenue. However the current competitive market environment the EU buyers hold significant power, allowing them to dictate and choose from a wide array of suppliers. As the study focuses on non-niche markets, suppliers face intense competition, where buyers have multiple alternatives. Furthermore, the participants expressed that they only receive necessary compliance requests from their buyers, for instance, the application for a BSCI license, with no additional support or resources provided to help them meet these requirements. This lack of support suggests a one-sided relationship, where suppliers will be navigating complex regulations like the CSDDD on their own. Due to these requirements from buyers, suppliers are solely responsible for meeting them; failure to do so could lead to a loss of competitiveness in the market and valuable business opportunities which is a harsh reality. This dynamic indicates a power imbalance in the buyer-supplier relationship in the market, where suppliers bear the full responsibility of compliance without reciprocal support from their buyers.

### **5.3 Additional findings**

The cultural and economic differences between the EU and Asia are important, but the practical implementation of the CSDDD may encounter to be challenging in certain Asian countries like India and Vietnam. In these countries, the knowledge of sustainability is still under development, therefore, it is difficult for them to understand the purpose of sustainable regulation applications such as CSDDD. Moreover, balancing of ethical and financial considerations is vital, as the strict rules of CSDDD may conflict with existing labour practices, potentially causing financial strain for workers in Asia. The main purpose of CSDDD is to identify, prevent, and mitigate adverse impacts on human rights such as working overtime. However, some workers in Asia rely heavily on overtime pay to maintain their standard of living. With the implementation of CSDDD, these employees may no longer be allowed to work overtime, potentially forcing them to seek additional jobs to compensate for the loss of income. As a result, these employees might end up working overtime elsewhere, just not within the same company. This raises an important question: Does the application of CSDDD fully enhance its goal? Based on the company's view the directive did reduce overtime work within the company but does not guarantee that employees will not look for another job after working hours. Furthermore, the saying “Those above have policies while those below have their countermeasures” is a coping mechanism for Asian suppliers to cope with regulations that are challenging for the firm or the country to adapt. According to the collected data, this coping mechanism will not fully ensure that the regulation applied will be compliant with the regulation. It will only happen on paperwork to pass the examination, however, practically not feasible in reality. Therefore, how can we make sure that the report submitted is reliable and 100% accurate? These are interesting topics that we can consider when further evaluating the directive implications and effectiveness in Asian countries.

### **6 Limitations and Future research topics**

Throughout the research, there are several limitations identified. Firstly, targeting the entire continent may overlook significant regional differences in economic development and sustainability awareness. Secondly, as the CSDDD is relatively new, there is a lack of familiarity with the directive may have a depth of insights into long-term compliance strategies. Furthermore, this study did not fully account for the cultural differences, particularly the working culture, across Asian countries which may potentially lead to an incomplete understanding of the factor's impact on CSDDD application. Lastly, this research only focuses on markets with



abundant resources potentially overlooking situations where resource scarcity affects the balance of power between buyers and suppliers. For example, in markets with scarce resources like palm oil and rubber in Malaysia, suppliers may hold equivalent or even greater power than their buyers in trade decisions. In such cases, buyers might be more willing to support their suppliers in adopting CSDDD to secure their supply, leading to a more collaborative, two-way relationship. This suggests that the power balance in scarce resource markets could significantly influence compliance strategies and should be considered in future research.

Future research can investigate the impacts of CSDDD application by comparing a developed Asian country like Japan with a developing country like India. This comparison can reveal CSDDD's influence on each country and how it affects the social norms such as unemployment rate and living standards. By taking into account of cultural and economic differences, researchers can gain deeper insights towards the applicability of such regulations in developed and developing countries highlighting that not all laws/regulations are universally applicable due to regional variations. Moreover, the exploration of the integration of AI tools and Industry 4.0 software for compliance could provide valuable insights into the feasibility and benefits of advanced technologies. Addressing these limitations and focusing on these areas can yield more actionable insights into the implementation of CSDDD and its impact across different regions and industries.

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## Appendix

### Appendix A: Interview Guide

Introduction Introduction of interview moderator

Briefing I am grateful for your participation in this interview. This interview will support me in answering the research question: How will recent environmental developments such as the Corporate Sustainability Due Diligence Directive (CSDDD) influence the evolution and interplay of global sourcing practices between EU buyers and Asian suppliers? This thesis aims to identify the activities and capabilities suppliers have or need to perform to enable global sourcing practices.

Question: **Do you have any questions at this point?**

Your answers will be recorded and transcribed for the purpose of data analysis in this thesis. The collected data will be stored confidentially and anonymously in the data that only I, the researcher, will have access to. Furthermore, the recorded video and transcribed interview will be removed 90 days after the thesis has ended. Your participation is fully voluntary and you own all rights to withdraw your participation from this interview without providing any reason.

Do you have any questions at this point? If you have no further questions, I will begin the interview by starting with the first question.

### Start

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To start off,

Question 1: **Could you please introduce yourself and your position in the company?**

Back-up:

- Time period – how long have you been in this role?
- Responsibilities – what do you do?

Firstly, I would like to know about your knowledge of the corporate sustainability due diligence (CSDDD).

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*Outline question 2 from the literature:*

*The corporate sustainability due diligence directive (CSDDD) aims to address these challenges by fostering sustainable and responsible business behaviour to anchor human rights and environmental considerations as well as corporate governance in the EU and internationally (European Commission). By implementing the due diligence processes as outlined in the CSDDD, companies can better navigate the difficulty of their value chains, identify potential risks, and mitigate adverse impacts on both human rights and environmental conditions.*

**Question 2: Have you heard of the corporate sustainability due diligence directives (CSDDD) introduced by the European Commission?**

**→ If yes, can you briefly explain what you know about this due diligence?**

**→ If not, explain what CSDDD is to the interviewee.**

**Question 2a: How do you think the CSDDD will impact your relationship and business operation with your EU customers?**

Sensing (identify) – next question

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**Question 3: How did you hear of this due diligence?**

**Question 4: How does your company stay informed about new regulations like the CSDDD?**

**Question 4a: What steps or activities can your company take to stay informed about customer's regulations and requirements?**

**Question 4b: What additional capabilities or resources do you need to get this information?**

Seizing (capture)

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**Question 5: How will you evaluate the impact of a new regulation like the CSDDD for your company?**

**→ does your company develop an impact assessment or plan?**

**Question 5a: What investments or activities has your company made to evaluate the impact of regulations such as the CSDDD?**

**Question 5b: What do you think will be the key element or change for your company due to the CSDDD?**

**Question 5c: What additional capabilities or resources do you need to evaluate the impact?**

*According to the CSDDD, large EU firms are required to integrate due diligence into company policies and management systems to identify risks and they would have to implement risk management systems and a grievance mechanism (Felbermayr et al., 2024).*

**Question 6: What is your willingness to collaborate with your customers in order to achieve the objectives of regulations such as the CSDDD?**

**Question 6a: Are you willing to voluntarily adopt this due diligence or similar diligence in your company's policy or strategy to maintain the buyer-supplier relationship?**

Transformation (take action)

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*Outline question 8 from the literature:*

*According to research, one of the drawbacks of CSDDD was about ensuring that the procurement organisations are sourcing ethically across multiple tiers of their comprehensive end-to-end supply chain (Banker, 2024). To overcome this disadvantage, antecedents such as technology (AI tools for supply chain risk management) and transparency between buyer and supplier can play a crucial role in the success of CSDDD.*

**Question 7: How will you assess to change the company's operations or sourcing practices in response to the CSDDD?**

**→ does your company have or develop a strategy or plan?**

**Question 8: Would you take into account technology such as AI supply chain risk management systems or blockchain technology to meet the CSDDD?**

**Question 9: What is your willingness to adopt certain technology instruments requested by your customer to ensure CSDDD requirements are met?**

**Question 10: Can you give an example of how you, as a supplier expert, will take action to meet the CSDDD?**

**Question 11: What additional capabilities or resources do you think are necessary for better collaboration and compliance with the CSDDD?**

Extra questions

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Question 12: **Do you believe that CSDDD will be effective in achieving its goal (human rights and environmental impact) as a foreign supplier?**

Debriefing

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Debriefing      Summarizing the main points mentioned during the interview.

From my side, there are no further questions. Is there anything else you want to bring up before finishing the interview?

Closure          Thank you for participating in the interview.

## Appendix B: Coding example

The following table shows an example of the coding process that was conducted throughout this thesis.

Code	Sub-theme	Theme	Category
Information receives from customers		Sensing	Dynamic Capabilities theory
Did not receive any information from the customer			
No knowledge of CSDDD			
Inform through buyer-supplier meeting/visit			
Third-party consultancy company			
Third-party contracting firms	Consideration and capability of implementation	Seizing	
Capability to capture			
Forming a group/assigning to an employee			
Consider action			
Experience with EU regulations	Experience with EU regulations		
Past investment			
Related clauses requested by the customer and similar to CSDDD			
Current technology tool integrated in CSDDD	Antecedents	Transform	
Effectiveness of technology tools			
Technology application			
Extra antecedents			
Take action based on order size/profit/costs	Implementation actions		
Take action			
Application of CSDDD	Application willingness		
Willingness to cooperate with customers			
Supplier perspective of CSDDD		Supplier opinion	
CSDDD concerns from suppliers			
Example of only doing paperwork			
Impact of CSDDD between buyer-supplier			
Benefit of CSDDD		Result of CSDDD	
Drawbacks of CSDDD			

